

Publication of information concerning capital adequacy and liquidity management

31 Dec 2019

In accordance with Regulation (EU) 575/2013 and the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2014:12) on regulatory requirements and capital buffers, this information is presented on a quarterly basis on Klarna's website, www.klarna.com

Klarna's capital requirements are set out in Regulation (EU) 575/2013 and Directive (EU) 36/2013 as well as in the Directive's national implementation regulations. This capital requirement consists of minimum capital requirements for credit, market and operational risk, internally assessed capital requirement and regulatory capital buffers.

The information is presented for Klarna Bank AB (publ) (556737-0431) and its consolidated situation as of February 26, 2020.

Summary of capital adequacy information	Consolidated situation	Klarna Bank AB
SEKk	31 Dec 2019	31 Dec 2019
Own funds		
Common Equity Tier 1 capital	7,439,312	4,570,245
Additional Tier 1 capital	473,805	250,000
Tier 2 capital	535,041	598,325
Own funds	8,448,158	5,418,570
Risk exposure amount		
Credit risk according to standardized approach	25,212,408	26,345,704
Market risk according to standardized approach	272,257	1,491,088
Operational risk according to alternative standardized approach	959,111	955,468
Credit valuation adjustment	1,677	1,677
Total risk exposure amount	26,445,453	28,793,937
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	28.1%	15.9%
Tier 1 capital ratio	29.9%	16.7%
Total capital ratio	31.9%	18.8%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	8.1%	8.2%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	1.1%	1.2%
Common Equity Tier 1 capital available to meet buffers	20.0%	7.7%
Leverage ratio		
Tier 1 capital	7,913,117	4,820,245
Total Leverage ratio exposure amount	38,528,570	38,928,014
Leverage ratio	20.5%	12.4%

Capital requirements for credit risk per exposure class, standardized approach			
SEKk	Consolidated situation		
Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	510,272		
Regional governments or local authorities	2,265,154		
Multilateral development banks	234,782		
Institutions	2,021,416	404,283	32,343
Corporates	1,593,025	1,516,407	121,313
Retail	27,617,719	20,713,290	1,657,063
Exposures in default	434,437	491,110	39,289
Covered bonds	1,633,589	163,359	13,069
Equity	20,081	50,203	4,016
Other items	1,407,767	1,873,756	149,900
Total	37,738,242	25,212,408	2,016,993

Capital requirements for credit risk per exposure class, standardized approach			
SEKk	Klarna Bank AB		
Exposure class	Exposure amount	Risk weighted exposure amount	Capital requirement
Central governments or central banks	403,660		
Regional governments or local authorities	2,265,154		
Multilateral development banks	234,782		
Institutions	1,300,614	260,123	20,810
Corporates	3,392,568	3,325,694	266,056
Retail	26,533,365	19,900,024	1,592,002
Exposures in default	396,939	453,612	36,289
Covered bonds	1,633,589	163,359	13,069
Equity	1,325,570	1,355,692	108,455
Other items	536,457	887,200	70,976
Total	38,022,698	26,345,704	2,107,657

Internally assessed capital requirement

As of December 31, 2019, the internally assessed capital requirement for the consolidated situation amounted to SEK 3.4bn and for Klarna Bank AB (publ) to SEK 3.7bn, comprising the minimum capital requirement under Pillar I, the capital requirement for risks managed under Pillar II and the combined buffer requirements.

Sources of funding

As of December 31, 2019, Klarna's business was funded by deposits from the public, debt securities in issue, operational liabilities, subordinated debt and liabilities to credit institutions.

Liquidity reserve

As of December 31, 2019, Klarna's liquidity reserve amounted to SEK 3.5bn and consisted of high-quality liquid assets.

IFRS 9 Transitional adjustments

From January 1, 2018 Klarna applies the transitional rules in accordance with article 473(a) of the European Union regulation no 575/2013 in order to phase in the effect on capital when applying IFRS 9. This includes adjusting the capital adequacy calculations with a dynamic and a static amount over a five year period.

SEKk	Consolidated situation			
	31 Dec 2019	30 Sep 2019	30 June 2019	31 Mar 2019
Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9				
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	7,439,312	7,665,982	3,386,342	2,319,835
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	7,017,798	7,381,004	3,293,140	2,232,544
Tier 1 capital	7,913,117	8,157,562	3,892,714	2,818,733
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	7,491,603	7,872,584	3,799,513	2,731,442
Total capital	8,448,158	8,731,239	4,490,839	3,376,462
Total capital as if IFRS 9 transitional arrangements had not been applied	8,026,644	8,446,260	4,397,638	3,289,171
Risk exposure amounts				
Total risk exposure amount	26,445,453	27,757,297	25,434,302	23,731,981
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	26,023,938	27,472,318	25,341,101	23,644,691
Capital ratios (as percentage of total risk exposure amount)				
CET1	28.1%	27.6%	13.3%	9.8%
CET1 as if IFRS 9 transitional arrangements had not been applied	27.0%	26.9%	13.0%	9.4%
Tier 1	29.9%	29.4%	15.3%	11.9%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	28.8%	28.7%	15.0%	11.6%
Total capital	31.9%	31.5%	17.7%	14.2%
Total capital as if IFRS 9 trans. Arrangements had not been applied	30.8%	30.7%	17.4%	13.9%
Leverage ratio				
Total Leverage ratio exposure amount	38,528,570	33,553,450	29,016,069	26,531,313
Leverage ratio	20.5%	24.3%	13.4%	10.6%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	19.7%	23.7%	13.1%	10.3%

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9		Klarna Bank AB			
SEKk	31 Dec 2019	30 Sep 2019	30 June 2019	31 Mar 2019	
Available capital (amounts)					
Common Equity Tier 1 (CET1) capital	4,570,245	4,078,857	3,227,171	3,263,263	
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	4,261,842	3,899,717	3,132,405	3,166,962	
Tier 1 capital	4,820,245	4,328,857	3,477,171	3,513,263	
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	4,511,842	4,149,717	3,382,405	3,416,962	
Total capital	5,418,570	4,927,098	4,075,296	4,111,109	
Total capital as if IFRS 9 transitional arrangements had not been applied	5,110,166	4,747,958	3,980,530	4,014,809	
Risk exposure amounts					
Total risk exposure amount	28,793,937	30,302,991	27,595,600	25,556,180	
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	28,485,533	30,123,851	27,500,834	25,459,879	
Capital ratios (as percentage of total risk exposure amount)					
CET1	15.9%	13.5%	11.7%	12.8%	
CET1 as if IFRS 9 transitional arrangements had not been applied	15.0%	12.9%	11.4%	12.4%	
Tier 1	16.7%	14.3%	12.6%	13.7%	
Tier 1 as if IFRS 9 transitional arrangements had not been applied	15.8%	13.8%	12.3%	13.4%	
Total capital	18.8%	16.3%	14.8%	16.1%	
Total capital as if IFRS 9 trans. arrangements had not been applied	17.9%	15.8%	14.5%	15.8%	
Leverage ratio					
Total Leverage ratio exposure amount	38,928,014	33,997,279	29,376,345	26,528,082	
Leverage ratio	12.4%	12.7%	11.8%	13.2%	
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.7%	12.3%	11.5%	12.9%	

Disclosure of information regarding capital adequacy and capital ratios

The table below is prepared in accordance with FFFS 2014:12 Chapter 8 Paragraph 3 and Regulation (EU) 1423/2013 Annex IV.

Own funds disclosure			<i>Regulation (EU) No 575/2013 Article reference</i>
SEkk	Consolidated situation	Klarna Bank AB	
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	8,840,376	4,857,892	26(1), 27, 28, 29
of which: Share capital	2,278	52,752	26(3)
of which: Share premium	8,838,098	4,805,140	26(3)
Retained earnings	887,596	274,521	26(1)(c)
Accumulated other comprehensive income (and other reserves)	225,268	392,318	26(1)
Independently reviewed interim profits			26(2)
Common Equity Tier 1 capital before regulatory adjustments	9,953,240	5,524,731	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments	-164	-164	34, 105
Intangible assets (net of related tax liability)	-2,069,884	-524,607	36(1)(b), 37
Losses for the current financial year	-865,394	-738,119	36(1)(a)
IFRS 9 transitional adjustments to CET1 Capital	421,514	308,404	473a(8)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,513,928	-954,486	
Common Equity Tier 1 (CET1) capital	7,439,312	4,570,245	
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	256,372	250,000	51, 52
of which: classified as equity under applicable accounting standards	256,372	250,000	
Qualifying AT1 capital included in the consolidated Tier 1 capital issued by subsidiaries and held by third parties	217,433		85, 86
Additional Tier 1 (AT1) capital before regulatory adjustments	473,805	250,000	
Additional Tier 1 (AT1) capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 (AT1) capital			
Additional Tier 1 (AT1) capital instruments	473,805	250,000	
Tier 1 capital (T1 = CET1 + AT1)	7,913,117	4,820,245	
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts		598,325	62, 63
Qualifying own funds instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third party	535,041		87, 88
Tier 2 (T2) capital before regulatory adjustment	535,041	598,325	
Tier 2 (T2) capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 (T2) capital			
Tier 2 (T2) capital instruments	535,041	598,325	
Own funds (TC = T1 + T2)	8,448,158	5,418,570	
Total risk exposure amount	26,445,453	28,793,937	

Capital ratios and buffers
(as percentage of total risk exposure amount)

Common Equity Tier 1	28.1%	15.9%	92(2)(a)
Tier 1	29.9%	16.7%	92(2)(b)
Total capital	31.9%	18.8%	92(2)(c)
Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer)	8.1%	8.2%	CRD 128, 129, 130, 131, 133
of which: capital conservation buffer requirement	2.5%	2.5%	
of which: countercyclical buffer requirement	1.1%	1.2%	
Common Equity Tier 1 available to meet buffers	20.0%	7.7%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20,081	20,081	36(1)(i), 45, 48
Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	310,666	233,832	36(1)(c), 38, 48