

Interim report January – June 2019

Klarna®

Klarna Holding AB

(Corp. ID 556676-2356)

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To our Shareholders

Dear shareholders,

I am often asked how would you describe 'Klarna', 14 years on. A payment provider, a neo-bank, a disruptive technology company or someone who delivers the smoothest retail experiences? In fact, we are in part all of the above and more. Klarna is in a very unique position at the crossroads of payments, retail and banking. However, this position is not unique to a consumer, this reflects their daily financial life in how they pay, shop, track finances and budget. A core differentiator for Klarna has been our belief that what a consumer needs and increasingly expects, is an experience and service stretching far beyond the actual transaction. That means helping people seamlessly manage their daily finances in the best way. We are not worried about fitting into industry categories, we are focused on what we are meaningfully solving for consumers and how we can do it even better.

This focus on the experience is relentless and the principle that should guide absolutely everything we do at Klarna. By doing so we also importantly drive loyalty, and ultimately sales for our 170,000 merchant partners operating in a highly competitive global environment. Through hard work we continue to gain real momentum across markets, and most especially the US in the first half of 2019. Over the last 10 years in the US there has been a quiet yet seismic shift away from a credit centric society to a debit one, where today 67% of millennials do not hold credit cards, but debit cards. It's not widely discussed, but much of the genesis of what is happening now, is from the global financial crisis in 2008. It was millennials that just turned 18 then, who are now acutely aware of the importance of managing one's finances well. Consumers are smart, they are looking for a better way to pay and budget, they want control and transparency when purchasing but yet still need some flexibility. This means Klarna's products have never been more relevant than now and we have seen a surge in demand for our services from merchants, and many more integrating, in one of the most competitive retail markets globally. The recently launched US shopping app, allowing users to shop with Klarna at any store or brand, means we are also engaging with and serving consumers in a new way. Most importantly, we see that they are happy and loyal and already now more than 50% of the US app users are purchasing this way each week.

We are also delighted with the response to products across the portfolio, including the new Klarna Card and the continually evolving Klarna app, both of which support consumers in managing their daily financial lives and an enhanced in-store offering, all of these further deepen consumer engagement across touchpoints. What astounds me is the amount of things happening at Klarna. Did you know that we are the largest and the most advanced Open Banking connector platform in Europe? We have now made this available to other companies to give them the freedom to focus on building end user products without the complexity of thousands of direct bank integrations. Or that we have just launched a global authentication solution enabling businesses, including merchants and other banks, to provide a simple, secure and personalised customer authentication experience irrespective of the market, through a one-time integration? There is so much more to come and the opportunities we see are tremendous.

While Klarna is constantly evolving, we cannot be complacent. Every day brings new challenges and opportunities. The global context we are operating in is shifting rapidly and we always need to have an eye on the future. Therefore, we have maintained necessary investments in key areas including people, products and the platform to further strengthen our capabilities and efficiencies. We see how the transformation of our operating model across the entire company is proving critical to our success by ensuring scalability, clarity of purpose, and speed to market. We are sharply focused on establishing a platform to drive future growth. While revenues continue to increase steadily, this decision has some short term impact on profitability, but this is the right strategy as we are building Klarna for the long term and progress is already visible in the acceleration of the business in the last few months.

Disruption in payments and retail banking is happening around us. It's a trillion dollar industry that has not kept up with its customers' needs and where incentives are not aligned. We must change this paradigm. What could be a more exciting target for an entrepreneurial bunch of rebels who are passionate, energetic, nerdy about their products and dedicated to solving for their customers' needs. The shift is coming.

Thank you my fellow employees, our consumers, and merchants for the support in 2019 so far. To our shareholders, we are thankful for the confidence you have shown in our plans, especially this year and we are grateful for the continued support.

Together we will create wonders.

Sebastian Siemiatkowski, CEO and Co-founder

Business overview

The CEO of Klarna Holding AB hereby submits the report for the period January 1 – June 30, 2019. The interim report has been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

The subsidiary Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). The company's personal data protection officer is responsible that all personal details are dealt with in accordance with the General Data Protection Regulation (GDPR).

Klarna's core mission is to give consumers control over their personal finances, to save them time and to create a joyful experience that stretches beyond the actual transaction, with an increased focus on services for the pre and post purchase experience. Klarna offers consumers a range of payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice (Pay later), sales financing (Slice it), as well as immediate settlement option (Pay now). Klarna's Pay in 3 and Pay in 4 in the UK and the US respectively, offer consumers a short-term (60 days or 6 weeks) free instalment plan with no interest or fees. The Klarna app powers the whole shopping experience and is a tool for consumers to take control over their personal finances, including services such as overview of all purchases, friendly reminders on invoices, 24/7 customer service through chat, financial overview, financial insights, delivery tracking and a wishlist. The Klarna Card has so far been launched in Germany and Sweden and almost 140,000 cards have been issued. The in-app shopping browser which makes it possible for app users to use Klarna also at merchants not connected to Klarna, is now live in the US and Sweden. Klarna is also increasingly available as a payment option in-store. Collectively, these services are referred to as the 'Klarna everywhere' concept, which ensures that consumers can choose how and when to pay for purchases with Klarna based on their own needs and preferences.

Klarna's value proposition to merchants is to increase sales and reduce working capital requirements by providing simple, safe, and cost-effective payment solutions and consumer credit products across all e-commerce platforms, including on mobile phones and in physical stores. Klarna's merchant offering includes technology, credit risk handling, customer services and administration. The Klarna Checkout is a conversion driving checkout solution optimised for desktop and mobile through which merchants can offer card payments, direct banking and Klarna's proprietary payment options as well as a shipping service in one solution. Klarna assumes all the risk for both the consumer and merchant.

Klarna's SME focused services include a merchant lending product, Boost that democratises and simplifies access to capital for SMEs to help them accelerate growth and unlock potential. Another example is the automated and simplified onboarding tool that makes it easier for SME merchants to start using Klarna's services. The new merchant portal is regularly updated and improved with tools that e.g. provide merchants with additional insights on their current customer base or help them manage communication with consumers more effectively.

During the period Klarna has launched new business-to-business products by making internal, fully proven and mature infrastructure externally available. Klarna's Open Banking Platform will enable access to more than 4,300 European banks through a single Access to Account (XS2A) API in line with Payment Services Directive (PSD2). Klarna's XS2A API is the most established and proven solution that has been developed at scale across markets for almost 15 years through the Klarna Group company Sofort. The global Customer Authentication Platform allows multinational businesses, including merchants and other banks, to provide a simple, secure and personalised customer authentication experience irrespective of market, through a one-time integration.

Klarna's success to date is a result of the high degree of trust that has been built with customers and partners in all markets. This trust is critical in the financial sector and when handling personal data. Maintaining that trust requires that Klarna operates with the highest ethical standards and strive to do what is right every day. Such standards are necessary across all parts of the business - from the handling of sensitive personal data to a robust corporate governance framework and ensuring all employees are treated with respect in a secure working environment.

Business results and performance

Total sales volume increased by 29% compared to the same period (Jan - Jun) in 2018. This growth is partly attributable to leveraging the core product offering, such as Pay in 3 and Pay in 4 in the UK and US, and to the performing existing merchant base coupled with continual onboarding of new merchants across all regions. During the period, recently launched products such as the Klarna Card, merchant lending and the in-app shopping browser have started to generate increasing sales volume.

Total operating revenues, net, increased by 33% year-on-year resulting in SEK 3,329m at period-end, primarily driven by growth in net interest income and commission income.

Interest income grew by 39% year-on-year to SEK 1,155m, primarily driven by an increased popularity of the Slice it product amongst consumers. *Interest expenses* grew to SEK 151m at period-end, due to continued growth in general, but also significant growth in the UK and US where funding is GBP and USD based. The overall sales volume growth and the relative share of the Slice it product has contributed to an increase in *Loans to the public* by 49% year-on-year to SEK 22,639m. This growth predominantly stems from strong merchant performance in the DACH region and Nordic countries. Loans to the public have partly been funded by the increase in *Deposits from the public*, which have increased by 44% year-on-year to SEK 15,218m, primarily driven by EUR deposits.

Commission income increased by 31% year-on-year to SEK 2,388m, driven by increased sales volumes and higher consumer activity, most notably in the US and UK markets which are growing rapidly, but also in core markets such as the DACH region. The improved SME onboarding experience, in particular the launch of the automatic onboarding process, has positively contributed to the overall commission income for the period.

Total expenses before credit losses grew by 37% year-on-year. Benefits from investments previously made are being realised, and the commitment to further strengthen capabilities, product offering and to support future business expansion continues. Examples of these investments are new product launches such as the Klarna Card in Germany and the in-app shopping feature in the US, increased efforts to drive consumer brand awareness and preference, and significant improvements in infrastructure, including a global ERP system, which are prerequisites for further growth. These efforts across markets will continue going forward. Investment in world-class talent across competences and markets has increased the average number of full-time equivalent employees to 2,112 from 1,626 (excluding consultants). The total number of employees recorded at 2,445 at the end of June 2019.

Net credit losses increased by 71% year-on-year for the first half of 2019, resulting from growth in loans to the public, in combination with a shift in market composition in the portfolio due to significant growth across regions also outside of the Nordics and DACH, which means a larger share of new consumers, and from a shift in product concentration in the loan portfolio towards longer duration which requires higher provisioning upfront under IFRS 9.

Operating income for the period was SEK -65m, compared to SEK 111m in 2018. *Net income* recorded at SEK -73m, compared to SEK 70m in 2018. For the quarter, both operating income and net income were positive, SEK 29m and SEK 21m respectively.

Capital adequacy has strengthened during the last quarter, and a capital injection of SEK 1,067m was made to support future growth ambitions and has brought Klarna to a CET1-ratio of 13.3% at the end of the quarter.

Branches abroad

The subsidiary, Klarna Bank AB (publ), operates Klarna Bank AB UK branch in the United Kingdom.

Significant events during the period

On March 15, 2019, the company resolved to issue up to 650,746 new shares. 650,167 of these were subscribed to and registered during April 2019.

On April 25, 2019, the annual general meeting of Klarna Holding AB, resolved to issue up to 30,516 shares. Registration of the new shares occurred during July 2019.

During the first half of 2019 63,050 new shares were subscribed to by exercise of warrants. Registration of the new shares occurred during July 2019.

Future development

Klarna continues to develop the 'smooth' purchase experience, supporting merchant growth and driving consumer loyalty by offering flexibility and control over their payments but also ensuring that they spend less time managing their finances, so they have more time to do what they love. This is evident in the strong progress in the consolidation of the leading position in the Nordics, but more particularly the growth across continental Europe, increasing DACH market share which is now the largest market and huge momentum in UK as offer resonates strongly with consumers and merchants. In addition, investments in the US have begun to show positive signs including signing of noteworthy brands. The investment phase has and will further enhance the offering towards both merchants and consumers, which provides a platform for driving sustained customer preference and growth in the next years. Product and services development for consumers and merchants will continue at pace across all markets.

Risks and risk management

Through its business activities Klarna is subject to a number of different risks, the main ones being credit risk, operational risk, market risk (interest risk and currency risk) and liquidity risk.

The external regulations set forth requirements for good internal control, identification and management of risks as well as responsibilities for internal control functions. The Board and management regularly decide on policies and instructions for the governance and management of risks, including risk appetite and tolerance limits.

The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All accountable leads are fully responsible for the risks, and the management of these, within their respective area of responsibility.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations, but set the principles and framework for risk management, facilitate risk assessment and perform independent follow-ups, as well as ensure that operations are carried out in compliance with external regulations and internal policies. They shall also promote a sound risk management and compliance culture by supporting and educating business line managers and staff.

The third line of defense refers to the Internal Audit function which performs independent periodic reviews of the governance structure and the system of internal controls. The Board has appointed Deloitte as internal auditors.

Five Year Summary, Group

Amounts in SEKk	Jan - Jun 2019	Jan - Jun 2018	Jan - Jun 2017	Jan - Jun 2016	Jan - Jun 2015
Income statement					
Total operating revenues, net ¹	3,329,445	2,504,271	1,893,146	1,575,973	1,195,714
Operating income	-64,532	110,685	320,373	133,322	162,600
Net income for the period	-73,131	70,267	228,339	96,431	125,282
Balance sheet					
Loans to credit institutions	1,793,433	2,306,348	485,055	1,029,842	966,768
Loans to the public	22,638,909	15,234,766	9,735,650	6,693,105	4,656,409
All other assets	6,039,387	4,018,200	2,584,337	2,122,365	1,931,969
Total assets	30,471,729	21,559,314	12,805,042	9,845,312	7,555,146
Liabilities to credit institutions	466,264	341,704	483,532	25,281	338,754
Deposits from the public	15,217,700	10,555,645	6,190,265	5,044,872	3,693,218
All other liabilities	8,905,986	6,295,092	2,855,497	2,109,942	1,316,841
Total equity	5,881,779	4,366,873	3,275,748	2,665,217	2,206,333
Total liabilities and equity	30,471,729	21,559,314	12,805,042	9,845,312	7,555,146
Key ratios and figures²					
Return on equity	-0.3%	8.2%	12.0%	5.8%	11.5%
Return on assets	-0.2%	1.1%	2.2%	1.1%	2.7%
Debt/equity ratio	4.5	3.7	3.1	2.6	2.5
Equity/assets ratio	19.3%	20.3%	25.6%	27.1%	29.2%
Cost/revenue ratio	83.4%	81.2%	73.8%	78.9%	77.3%
Own funds (Total capital)	4,490,839	2,746,026	2,398,316	1,805,003	919,138
Capital requirement	2,034,744	1,482,458	968,904	699,696	500,000
Total capital ratio	17.7%	14.8%	19.8%	20.6%	14.7%
Average number of full-time equivalents	2,112	1,626	1,331	1,352	1,124

¹ Total operating revenues, net, have been restated for previous periods due to changed presentation of the income statement. The change was made in the annual report 2018.

² See "Definitions & Abbreviations" for definitions of how the ratios are calculated.

Income Statement, Group

Amounts in SEkk	Note	Jan - Jun 2019	Jan - Jun 2018	Jan - Dec 2018
Interest income calculated according to the effective interest rate method	3	1,306,083	937,537	2,033,517
Interest expenses	4	-151,431	-104,454	-232,015
Net interest income		1,154,652	833,083	1,801,502
Commission income	5	2,388,338	1,820,452	3,999,394
Commission expenses		-200,279	-140,320	-328,870
Net result from financial transactions		-21,602	-11,429	-27,405
Other operating income		8,336	2,485	5,854
Total operating revenues, net		3,329,445	2,504,271	5,450,475
General administrative expenses		-2,632,475	-1,949,880	-4,351,652
Depreciation, amortisation and impairment of intangible and tangible assets	6	-143,395	-82,434	-154,746
Total expenses before credit losses		-2,775,870	-2,032,314	-4,506,398
Operating income before credit losses, net		553,575	471,957	944,077
Credit losses, net	7	-618,107	-361,272	-785,567
Operating income		-64,532	110,685	158,510
Income tax		-8,599	-40,418	-55,158
Net income for the period		-73,131	70,267	103,352
Whereof attributable to:				
Shareholders of Klarna Holding AB		-72,921	70,267	103,086
Non-controlling interests		-210	-	266
Total		-73,131	70,267	103,352

Statement of Comprehensive Income, Group

Net income for the period		-73,131	70,267	103,352
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations		58,159	107,967	66,444
Other comprehensive income for the period, net after tax		58,159	107,967	66,444
Total comprehensive income for the period		-14,972	178,234	169,796
Whereof attributable to:				
Shareholders of Klarna Holding AB		-14,905	178,234	169,048
Non-controlling interests		-67	-	748
Total		-14,972	178,234	169,796

Balance Sheet, Group

Amounts in SEKk	Note	30 Jun 2019	31 Dec 2018	30 Jun 2018
Assets				
Cash and balances with central banks		572	331	45
Chargeable central bank treasury bills		2,496,413	3,084,314	1,715,615
Loans to credit institutions		1,793,433	2,721,841	2,306,348
Loans to the public	8	22,638,909	19,979,002	15,234,766
Other shares and participations		20,081	41,217	28,213
Intangible assets		2,101,014	2,006,084	1,957,659
Tangible assets		796,212	80,602	50,147
Deferred tax assets		45,308	47,508	18,443
Other assets	9	357,597	109,202	144,943
Prepaid expenses and accrued income		222,190	145,839	103,135
Total assets		30,471,729	28,215,940	21,559,314
Liabilities				
Liabilities to credit institutions		466,264	1,418,054	341,704
Deposits from the public		15,217,700	14,581,769	10,555,645
Debt securities in issue	10	1,998,095	1,996,905	1,995,911
Deferred tax liabilities		115,498	117,633	132,539
Other liabilities	11	5,261,727	3,887,025	3,221,092
Accrued expenses and prepaid income		653,924	533,261	444,566
Provisions		278,617	239,588	203,715
Subordinated liabilities		598,125	597,560	297,269
Total liabilities		24,589,950	23,371,795	17,192,441
Equity				
Share capital		2,051	1,986	1,967
Other capital contributed		4,230,860	3,164,734	2,978,928
Reserves		248,305	190,289	232,294
Additional Tier 1 instruments		505,744	505,738	250,000
Retained earnings		908,039	818,196	833,417
Net income for the period		-72,921	103,086	70,267
Non-controlling interests		59,701	60,116	-
Total equity		5,881,779	4,844,145	4,366,873
Total liabilities and equity		30,471,729	28,215,940	21,559,314

Statement of Changes in Equity, Group

Amounts in SEkk	Share capital	Other capital contributed	Reserves ¹	Additional Tier 1 instruments	Retained earnings	Net income	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2019	1,986	3,164,734	190,289	505,738	818,196	103,086	4,784,029	60,116	4,844,145
Opening balance adjustment	-	-	-	2	1	-	3	-	3
Transfer of previous year's net income	-	-	-	-	103,086	-103,086	-	-	-
<i>Net income for the period</i>	-	-	-	-	-	-72,921	-72,921	-210	-73,131
<i>Exchange differences, foreign operations</i>	-	-	58,016	-	-	-	58,016	143	58,159
Total comprehensive income for the period	-	-	58,016	-	-	-72,921	-14,905	-67	-14,972
New share issue	65	1,066,209	-	-	-	-	1,066,274	-	1,066,274
Share warrants	-	-83	-	-	-	-	-83	-	-83
Share-based payments	-	-	-	-	2,421	-	2,421	-	2,421
Additional Tier 1 instruments	-	-	-	-	-15,721	-	-15,721	-17	-15,738
Changes in non-controlling interests	-	-	-	4	56	-	60	-331	-271
Balance as at June 30, 2019	2,051	4,230,860	248,305	505,744	908,039	-72,921	5,822,078	59,701	5,881,779
Balance as at January 1, 2018	1,967	2,979,011	124,328	250,000	541,613	344,606	4,241,525	-	4,241,525
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	-69,246	-	-69,246
Impact of adopting IFRS 15	-	-	-	-	21,447	-	21,447	-	21,447
Restated opening balance	1,967	2,979,011	124,328	250,000	493,814	344,606	4,193,726	-	4,193,726
Transfer of previous year's net income	-	-	-	-	344,606	-344,606	-	-	-
<i>Net income for the period</i>	-	-	-	-	-	70,267	70,267	-	70,267
<i>Exchange differences, foreign operations</i>	-	-	107,967	-	-	-	107,967	-	107,967
Total comprehensive income for the period	-	-	107,967	-	-	70,267	178,234	-	178,234
Share warrants	-	-83	-	-	-	-	-83	-	-83
Share-based payments	-	-	-	-	1,568	-	1,568	-	1,568
Additional Tier 1 instruments	-	-	-	-	-6,572	-	-6,572	-	-6,572
Balance as at June 30, 2018	1,967	2,978,928	232,294	250,000	833,417	70,267	4,366,873	-	4,366,873

¹ The reserves consist of exchange differences from foreign operations.

	Share capital	Other capital contributed	Reserves ¹	Additional Tier 1 instruments	Retained earnings	Net income	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2018	1,967	2,979,011	124,328	250,000	541,613	344,606	4,241,525	-	4,241,525
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	-69,246	-	-69,246
Impact of adopting IFRS 15	-	-	-	-	21,447	-	21,447	-	21,447
Restated opening balance	1,967	2,979,011	124,328	250,000	493,814	344,606	4,193,726	-	4,193,726
Transfer of previous year's net income	-	-	-	-	344,606	-344,606	-	-	-
<i>Net income for the year</i>	-	-	-	-	-	103,086	103,086	266	103,352
<i>Exchange differences, foreign operations</i>	-	-	65,961	-	-	-	65,961	482	66,444
Total comprehensive income for the year	-	-	65,961	-	-	103,086	169,047	748	169,795
New share issue	19	185,840	-	-	-	-	185,859	-	185,859
Share warrants	-	-117	-	-	-	-	-117	-	-117
Share-based payments	-	-	-	-	7,700	-	7,700	-	7,700
Additional Tier 1 instruments	-	-	-	256,370	-18,803	-	237,567	-34	237,533
Changes in non-controlling interests	-	-	-	-632	-9,121	-	-9,753	59,402	49,649
Balance as at December 31, 2018	1,986	3,164,734	190,289	505,738	818,196	103,086	4,784,029	60,116	4,844,145

¹ The reserves consist of exchange differences from foreign operations.

Cash Flow Statement, Group

Amounts in SEKk	Note	Jan - Jun 2019	Jan - Jun 2018	Jan - Dec 2018
Operating activities				
Operating income		-64,532	110,685	158,510
Taxes paid		-180,914	-37,626	-98,965
<i>Adjustments for non-cash items in operating activities</i>				
Depreciation, amortisation and impairment	6	143,395	82,434	154,746
Gain or loss from shares in unlisted companies		915	-	-
Gain or loss from change in non-controlling interests		5	-	-
Share-based payments		2,421	1,568	7,700
Provisions excluding credit losses		73,133	76,242	146,601
Provision for credit losses		61,313	127,333	166,485
Financial items including unrealised exchange rate effects		-79,462	-91,025	-27,794
<i>Changes in assets and liabilities of operating activities</i>				
Change in loans to the public		-1,751,639	-1,519,230	-6,255,744
Change in liabilities to credit institutions		-951,791	-55,261	1,021,089
Change in deposits from the public		635,931	2,063,991	6,090,115
Change in other assets and liabilities		1,481,689	203,291	-638,444
Cash flow from operating activities¹		-629,536	962,402	724,299
Investing activities				
Investments in intangible assets		-91,740	-122,395	-259,678
Investments in tangible assets		-56,238	-7,610	-53,490
Sales of fixed assets		-	657	671
Investments in business combinations	16	-979,077	-	-50
Divestment of shares in subsidiaries		-	-	49,650
Investments and divestments of other shares and participations		20,220	-28,213	-41,217
Cash flow from investing activities		-1,106,835	-157,561	-304,114
Financing activities				
New share issue		1,066,274	-	185,859
Share warrants		-83	-83	-117
Additional Tier 1 instruments		-	-	250,890
Subordinated liabilities		-	-	297,750
Change in non-controlling interests		1,224	-	-
Lease liabilities		-55,271	-	-
Cash flow from financing activities		1,012,144	-83	734,382
Cash flow for the period		-724,227	804,758	1,154,567
Cash and cash equivalents at the beginning of the period		2,271,616	1,080,256	1,080,256
Cash flow for the period		-724,227	804,758	1,154,567
Exchange rate diff. in cash and cash equivalents		50,951	76,015	36,793
Cash and cash equivalents at the end of the period		1,598,340	1,961,029	2,271,616
Cash and cash equivalents include the following items				
Cash and balances with central banks		572	45	331
Loans to credit institutions ²		1,597,768	1,960,984	2,271,285
Cash and cash equivalents		1,598,340	1,961,029	2,271,616

¹ Cash flow from operating activities includes interest payments received and interest expenses paid.

² Adjusted for non-cash items in loans to credit institutions such as money in transfer.

Notes with Accounting Principles

Note 1 Corporate information

The parent company Klarna Holding AB, 556676-2356, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial interim report per June 30, 2019 consists of the Parent Company and its subsidiaries, together they make up the Group. The Group's business is described in the Business overview.

Note 2 Accounting and valuation principles

Basis for the preparation of the reports

Group

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The financial statements for the Group also comply with the applicable regulations in the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559), the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation (RFR 1 Supplementary Accounting Rules for Groups).

Parent Company

The interim report for the Parent Company, Klarna Holding AB, has been prepared in accordance with the Swedish Annual Account Act (ÅRL, 1995:1554). The accounting recommendation for legal entities, RFR 2, amended by the Swedish Financial Reporting Board has also been applied.

The accounting principles and calculation methods applied in this report are identical to those applied in the Annual Report for 2018 except for the changed accounting principles described below.

Changed accounting principles

The following significant new standards (IFRS) or interpretations have come into effect during the period.

IFRS 16 Leases

The standard replaces IAS 17 Leases and requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. At the commencement of a contract, Klarna assesses whether a contract is, or contains, a lease. Klarna has applied this approach to contracts entered into or changed on or after January 1, 2019. At inception or on reassessment of a contract that contains a lease component, Klarna allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price. However, for the leases of vehicles Klarna has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Klarna recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for initial costs, incentive payments, restoration obligations and lease payments before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments which are not paid at the commencement date, discounted using Klarna Group's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is any change in future lease payments arising, e.g. from a change in an index or changes in Klarna's assessment or estimations on the usage of extension, termination or purchase options or the amount expected to be payable under a residual value guarantee. Subsequently, a corresponding adjustment to the carrying amount of the right-of-use asset is made. Lease payments included in the measurement of the lease liability are fixed payments, variable lease payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option, if applicable. In the implementation of IFRS 16 estimates and assumptions have been used concerning e.g. prolongation and termination options and interest rates.

Klarna has elected not to recognise right-of-use assets and liabilities for short-term leases and leases of low-value assets. The lease payments associated with these leases are recognised as an expense on a straight line basis over the lease term.

When implementing IFRS 16, Klarna chose to use the modified retrospective approach where the amount of the right of use assets and prepayments equals the amount of the lease liabilities. This has resulted in a right of use asset, included in tangible assets, of SEK 438m, a reduction of prepaid expenses of SEK 19m and a lease liability, included in other liabilities, of SEK 419m for the Group. Under IFRS 16 depreciation and interest expenses are recognised in the income statement instead of recognising lease expenses as general administrative expenses. The right of use assets consist mainly of office space and car lease contracts.

IFRS 16 has not had any significant impact on the financial statements and capital ratios.

No other significant new standards (IFRS) or interpretations have come into effect during the period.

New and changed standards and interpretations which have not yet come into effect and which have not been applied in advance by the Group:

No IFRS or IFRIC interpretations that have not yet come into effect are expected to have any significant impact on the Group.

Note 3 Interest income calculated according to the effective interest rate method

	Jan - Jun 2019	Jan - Jun 2018
Loans to credit institutions	638	300
Loans to the public	1,304,268	937,204
Other interest income	1,177	33
Total	1,306,083	937,537

Note 4 Interest expenses

	Jan - Jun 2019	Jan - Jun 2018
Liabilities to credit institutions	-20,116	-18,568
Deposits from the public	-86,783	-53,363
Other interest expenses	-44,532	-32,523
Total	-151,431	-104,454

All interest expenses are calculated using the effective interest method.

Note 5 Commission income by operating segments

The segment information is presented based on the perspective of the Chief Operating Decision Maker (CODM), and the IFRS measurement principles and allocation between operating segments follow the information reported to the Chief Executive Officer, who is identified as the CODM.

Financial information is presented for the three main operating segments, based on regions; Sweden & Denmark, DACH (Germany, Austria and Switzerland) and Norway. The remainder of operating segments fall below the quantitative thresholds in IFRS 8 and are included in "Other" operating segments.

Revenues from contracts with customers divided by segments under IFRS 15:

Jan - Jun 2019	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	573,234	1,107,995	261,560	445,549	2,388,338
Jan - Jun 2018	Sweden & Denmark	DACH	Norway	Other ¹	Total
Commission income	504,227	881,129	217,501	217,595	1,820,452

¹ "Other" mainly includes the countries Belgium, Finland, the Netherlands, the United Kingdom and the United States.

All commission income arise from financial instruments measured at amortised cost.

Note 6 Depreciation, amortisation and impairment of intangible and tangible assets

	Jan - Jun 2019	Jan - Jun 2018
Amortisation / depreciation		
Intangible assets	-71,188	-52,541
Tangible assets ¹	-72,056	-20,270
Total amortisation / depreciation	-143,244	-72,811
Impairment		
Intangible assets	-151	-9,623
Total impairment	-151	-9,623
Total depreciation, amortisation and impairment of intangible and tangible assets	-143,395	-82,434

¹ From January 1, 2019, depreciation on leased assets is included in tangible assets. As of June 30, 2019 the depreciation of leased assets amounted to SEK 57m.

Note 7 Credit losses, net

Loan losses divided by class	Jan - Jun 2019	Jan - Jun 2018
Loans to credit institutions		
Increase in provisions	-53	-
Reversal of previous provisions	34	-
Total	-19	-
Loans to the public		
Realised loan losses	-854,175	-443,157
Allowances to cover realised loan losses	433,609	111,679
Recoveries on previous realised loan losses	311,417	233,156
Increase in provisions	-1,406,960	-641,825
Reversal of previous provisions	862,964	403,820
Total	-653,145	-336,327
Financial guarantees and commitments		
Increase in provisions	-42,837	-29,295
Reversal of previous provisions	77,894	4,350
Total	35,057	-24,945
Total credit losses, net	-618,107	-361,272

Note 8 Loans to the public

	30 Jun 2019	31 Dec 2018
Loans to the public	23,721,114	20,919,234
Allowance for credit losses	-1,082,205	-940,232
Total loans to the public	22,638,909	19,979,002

All loans and receivables are collectively assessed for impairment. For the fair value amounts see note 13.

Note 9 Other assets

	30 Jun 2019	31 Dec 2018
Current tax assets	152,364	31,515
VAT receivables	26,449	24,114
Derivatives	71,901	24,074
Tax account	56,155	500
Other receivables	50,728	28,999
Total	357,597	109,202

For the fair value amounts see note 13.

Note 10 Debt securities in issue

	30 Jun 2019	31 Dec 2018
Senior unsecured bond	1,998,095	1,996,905
Total	1,998,095	1,996,905

For the fair value amounts see note 13.

Note 11 Other liabilities

	30 Jun 2019	31 Dec 2018
Accounts payable	142,072	24,457
Personnel related taxes	37,805	33,388
Current tax liabilities	64,024	125,529
Liabilities to merchants	4,194,486	3,645,134
Derivatives	48,470	14,947
Lease liabilities	655,625	-
Unregistered share capital	67,131	-
Other liabilities	52,114	43,570
Total	5,261,727	3,887,025

For the fair value amounts see note 13.

Note 12 Pledged assets and contingent liabilities

	30 Jun 2019	31 Dec 2018
Pledged assets		
<i>Assets pledged for own liabilities</i>		
Pledged loans and receivables	6,778,127	6,645,083
<i>Other pledged assets</i>	9,839	9,474
Total pledged assets	6,787,966	6,654,557
Contingent liabilities and commitments		
<i>Contingent liabilities</i>		
Guarantees	539,394	523,952
<i>Commitments</i>	6,501,922	4,463,600
Total contingent liabilities and commitments	7,041,316	4,987,552

The subsidiary Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 0k (417,741) as of June 30, 2019.

Note 13 Financial assets and liabilities at fair value

	30 Jun 2019			31 Dec 2018		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	572	572	-	331	331	-
Chargeable central bank treasury bills	2,496,332	2,496,413	-81	3,083,849	3,084,314	-465
Loans to credit institutions	1,793,433	1,793,433	-	2,721,841	2,721,841	-
Loans to the public	22,638,909	22,638,909	-	19,979,002	19,979,002	-
Other shares and participations	20,081	20,081	-	41,217	41,217	-
Other assets	106,883	106,883	-	29,499	29,499	-
Other assets (Currency forwards)	71,901	71,901	-	24,074	24,074	-
Prepaid expenses and accrued income	14,768	14,768	-	9,094	9,094	-
Total	27,142,879	27,142,960	-81	25,888,907	25,889,372	-465
Liabilities						
Liabilities to credit institutions	466,264	466,264	-	1,418,054	1,418,054	-
Deposits from the public	15,281,898	15,217,700	64,198	14,533,365	14,581,769	-48,404
Debt securities in issue	2,013,316	1,998,095	15,221	2,005,971	1,996,905	9,066
Other liabilities	5,030,198	5,030,198	-	3,705,306	3,705,306	-
Other liabilities (Currency forwards)	48,470	48,470	-	14,947	14,947	-
Accrued expenses and prepaid income	579,158	579,158	-	499,079	499,079	-
Subordinated liabilities	617,240	598,125	19,115	607,374	597,560	9,814
Total	24,036,544	23,938,010	98,534	22,784,096	22,813,620	-29,524

Chargeable central bank treasury bills are valued in terms of the active market prices.

Booked value for loans to credit institutions and loans to the public are assumed to be approximations of fair value. Fair value on short term loans is equivalent to their booked value since the effect of discounting is insignificant.

The calculation of fair value of deposits from the public is based on Level 2 input using observable market data in form of yield curves. Deposits from the public are grouped into maturity buckets and thereafter average maturity and interest rates of each group is calculated. To measure the fair value, for each deposit group, the future value of the public deposits is calculated and discounted using yield curves with corresponding maturities.

Fair value on liabilities in terms of issued bonds and senior liabilities have been determined with regards to observable market prices from external markets.

Note 14 Classification of financial assets and liabilities into valuation categories

30 Jun 2019	Mandatory at fair value through profit or loss	Amortised cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	572	-	572
Chargeable central bank treasury bills	-	2,496,413	-	2,496,413
Loans to credit institutions	-	1,793,433	-	1,793,433
Loans to the public	-	22,638,909	-	22,638,909
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	2,101,014	2,101,014
Tangible assets	-	-	796,212	796,212
Deferred tax assets	-	-	45,308	45,308
Other assets	71,901	106,883	178,813	357,597
Prepaid expenses and accrued income	-	14,768	207,422	222,190
Total	91,982	27,050,978	3,328,769	30,471,729

30 Jun 2019	Mandatory at fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	466,264	-	466,264
Deposits from the public	-	15,217,700	-	15,217,700
Debt securities in issue	-	1,998,095	-	1,998,095
Deferred tax liabilities	-	-	115,498	115,498
Other liabilities	48,470	5,030,198	183,059	5,261,727
Accrued expenses and prepaid income	-	579,158	74,766	653,924
Provisions	-	-	278,617	278,617
Subordinated liabilities	-	598,125	-	598,125
Total	48,470	23,889,540	651,940	24,589,950

31 Dec 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	331	-	331
Chargeable central bank treasury bills	-	3,084,314	-	3,084,314
Loans to credit institutions	-	2,721,841	-	2,721,841
Loans to the public	-	19,979,002	-	19,979,002
Other shares and participations	41,217	-	-	41,217
Intangible assets	-	-	2,006,084	2,006,084
Tangible assets	-	-	80,602	80,602
Deferred tax assets	-	-	47,508	47,508
Other assets	24,074	29,499	55,629	109,202
Prepaid expenses and accrued income	-	9,094	136,745	145,839
Total	65,291	25,824,081	2,326,568	28,215,940

31 Dec 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	1,418,054	-	1,418,054
Deposits from the public	-	14,581,769	-	14,581,769
Debt securities in issue	-	1,996,905	-	1,996,905
Deferred tax liabilities	-	-	117,633	117,633
Other liabilities	14,947	3,705,306	166,772	3,887,025
Accrued expenses and prepaid income	-	499,079	34,182	533,261
Provisions	-	-	239,588	239,588
Subordinated liabilities	-	597,560	-	597,560
Total	14,947	22,798,673	558,175	23,371,795

Financial assets and liabilities - measurement

For financial assets and liabilities measured at fair value the Group uses different methods to determine the fair value. The methods are divided into three different levels in accordance with IFRS 13.

Level 1

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets. This category includes investments in discount papers where direct tradable price quotes exist.

Level 2

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are calculated using valuation techniques based on market prices or rates prevailing at the balance sheet date. This is the case for currency forwards within other assets and other liabilities where active markets supply the input to the valuation. The fair value of currency forwards is estimated by applying the forward rate at balance sheet date to calculate the value of future cash flows.

Level 3

Level 3 includes estimated values based on assumptions and assessments. One or more significant inputs are not based on observable market information. Level 3 is used for other shares and participations.

The following tables show the company's financial assets and liabilities measured at fair value, divided into the three valuation levels. No transfers between levels have been made during the period.

30 Jun 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	71,901	-	71,901
Total assets	-	71,901	20,081	91,982
Financial liabilities				
Other liabilities (Currency forwards)	-	48,470	-	48,470
Total liabilities	-	48,470	-	48,470
31 Dec 2018				
Financial assets				
Other shares and participations	-	-	41,217	41,217
Other assets (Currency forwards)	-	24,074	-	24,074
Total assets	-	24,074	41,217	65,291
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	14,947
Total liabilities	-	14,947	-	14,947

Note 15 Capital adequacy and leverage ratio

Capital adequacy regulations

Capital adequacy refers to the ability of an institution's Own Funds to cover the risk it is exposed to. Within the EU the capital adequacy requirements are contained in the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), both implemented in 2014. These regulations are based on the global capital adequacy standards Basel II and III, and define minimum requirements for total own funds in relation to risk-weighted exposure amounts (Pillar I), rules for the Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process "ICLAAP" (Pillar II) and rules for disclosures on risk, capital adequacy etc. (Pillar III).

The information about capital adequacy in this document is based on the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and (FFFS 2014:12). Other disclosures required under Pillar III and for Capital Adequacy are published on Klarna's homepage www.klarna.com

Common Equity Tier 1 capital

During the second quarter a total of SEK 1,067m of Common Equity Tier 1 capital was added to the own funds of the consolidated situation of Klarna Bank AB (publ) through the issuance of ordinary shares in Klarna Holding AB.

Additional Tier 1 capital

Klarna Bank AB (publ) issued in May 2017 SEK 250m in additional Tier 1 capital instruments. They have a floating coupon rate corresponding to STIBOR 3m plus 5.75% per annum. The securities were offered to a limited number of large Nordic investors and the first call date is May 26, 2022.

Klarna Holding AB issued in November 2018 EUR 25m in additional Tier 1 capital instruments. They have a fixed-to-floating coupon rate corresponding to 6.63% per annum. The floating interest rate is EURIBOR 3m plus 6.28% per annum. The security was offered to a limited number of large Nordic investors and the first call date is November 15, 2023.

Subordinated liabilities

On June 20, 2016, Klarna Bank AB (publ) issued SEK 300m subordinated notes due 2026. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 4.5% per annum, which corresponds to an initial coupon of approximately 4%. The notes were allocated to a limited number of large Nordic investors and the first call date is June 20, 2021.

On July 5, 2018, Klarna Bank AB (publ) issued SEK 300m subordinated notes due 2028. The subordinated notes are eligible for inclusion as Tier 2 capital in accordance with current regulations. The notes have a floating coupon rate corresponding to STIBOR 3m plus 3.5% per annum, which corresponds to an initial coupon of approximately 3%. The notes were allocated to a limited number of large Nordic investors and the first call date is July 5, 2023.

Consolidated situation and methods for calculating minimum requirements

The consolidated situation is made up of the Parent Company Klarna Holding AB together with its subsidiaries. All subsidiaries are fully consolidated in the Group. Klarna Bank AB (publ) is a registered bank under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). Klarna Bank AB (publ) uses the standardised method for calculating the minimum capital requirements for credit-, market- and operational risk regarding Klarna Bank AB (publ) and its consolidated situation. All regulated activities under the banking license are conducted in Klarna Bank AB (publ).

The Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process "ICLAAP"

The objective of the ICLAAP is to ensure that Klarna clearly and correctly identifies, assesses and manages all risk to which it is exposed. The process considers the financial resources required to cover such risk, and to ensure that Klarna has access to sufficient capital and liquidity to support its business strategy over the coming planning horizon in all market conditions. The main governing document for the ICLAAP is the ICLAAP policy. In this document, Klarna's board defines the responsibilities, processes and rules of the ICLAAP. The ICLAAP is performed at least yearly.

The assessed required capital is based on the minimum capital requirement, Pillar I, and additional capital required for other risks as determined as part of the ICLAAP, Pillar II. The internally assessed required capital as at the end of the second quarter of 2019 (year-end 2018) amounted to SEK 2,607m (2,051) for Klarna Bank AB (publ) and SEK 2,453m (1,927) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

Capital adequacy disclosure

Capital adequacy disclosure in accordance with the requirements in Commission Implementing Regulation (EU) No 1423/2013 can be found in Klarna's Pillar III report.

IFRS 9 transitional adjustments

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

Excess subsidiary capital deduction

In accordance with Article 85 and 87 of CRR Klarna Bank AB (publ)'s Tier 1 and Tier 2 Capital can only be included in the capital base of Klarna Holding Group with the share required to cover the minimum capital requirements of Klarna Bank AB (publ) and its subsidiaries. As of June 30, 2019 the full amounts of Additional Tier 1 capital and Tier 2 capital instruments issued by Klarna Bank AB (publ) were included in the Own funds of Klarna Holding Group.

Capital adequacy information

Own funds, total risk exposure amount and total leverage ratio exposure	Consolidated situation		Klarna Bank AB (publ)	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
Common Equity Tier 1 capital	3,386,342	2,452,244	3,227,171	3,327,255
Tier 1 capital	3,892,714	2,922,833	3,477,171	3,577,255
Own funds	4,490,839	3,424,327	4,075,296	4,174,815
Total risk exposure amount	25,434,302	22,761,017	27,595,600	24,307,481
Total leverage ratio exposure	29,016,069	26,601,364	29,376,345	26,977,302

Capital adequacy analysis

Common Equity Tier 1 capital ratio	13.3%	10.8%	11.7%	13.7%
Tier 1 capital ratio	15.3%	12.8%	12.6%	14.7%
Total capital ratio	17.7%	15.0%	14.8%	17.2%
Leverage ratio	13.4%	11.0%	11.8%	13.3%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.9%	7.9%	8.0%	7.9%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	0.9%	0.9%	1.0%	0.9%
Common Equity Tier 1 capital available to meet buffers	5.4%	2.9%	3.7%	5.8%

Exposure amounts for credit risk according to the standardised approach

Credit risk including counterparty credit risk	28,014,842	26,318,195	28,670,758	26,819,130
of which Central governments or central banks	1,735,162	1,789,504	1,682,536	1,777,849
of which Regional governments or local authorities	1,860,626	1,152,300	1,860,626	1,151,045
of which Institutions	1,059,284	2,356,109	497,673	2,172,375
of which Corporates	872,306	1,710,590	1,795,249	2,467,731
of which Retail	21,147,307	18,442,671	20,600,353	17,327,700
of which Exposures in default	635,754	589,544	605,839	577,667
of which Equity	20,081	41,217	1,142,346	1,163,482
of which Other items	684,322	236,258	486,136	181,281
Total exposure amount	28,014,842	26,318,195	28,670,758	26,819,130

Risk exposure amounts according to the standardised approach

Credit risk including counterparty credit risk	18,347,886	17,138,774	19,655,527	18,064,760
of which Institutions	211,857	602,536	99,535	562,621
of which Corporates	799,467	1,633,421	1,754,237	2,402,905
of which Retail	15,860,480	13,832,004	15,450,265	12,995,775
of which Exposures in default	673,602	691,987	643,687	680,107
of which Equity	50,203	71,339	1,172,468	1,193,604
of which Other items	752,277	307,488	535,335	229,747
Market risk	136,108	252,714	1,499,501	1,367,388
of which Foreign exchange risk	136,108	252,714	1,499,501	1,367,388
Operational risk	6,949,905	5,369,394	6,440,168	4,875,197
Credit valuation adjustments	404	135	404	135
Total risk exposure amount	25,434,302	22,761,017	27,595,600	24,307,481

	Consolidated situation		Klarna Bank AB (publ)	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
Total minimum capital requirements				
Credit risk including counterparty credit risk	1,467,831	1,371,102	1,572,442	1,445,181
of which Institutions	16,949	48,203	7,963	45,010
of which Corporates	63,957	130,674	140,339	192,232
of which Retail	1,268,838	1,106,560	1,236,021	1,039,662
of which Exposures in default	53,888	55,359	51,495	54,409
of which Equity	4,016	5,707	93,797	95,488
of which Other items	60,182	24,599	42,827	18,380
Market risk	10,889	20,217	119,960	109,391
of which Foreign exchange risk	10,889	20,217	119,960	109,391
Operational risk	555,992	429,551	515,213	390,016
Credit valuation adjustments	32	11	32	11
Total capital requirement	2,034,744	1,820,881	2,207,648	1,944,598
Own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	4,232,911	3,166,720	2,857,892	2,857,892
Retained earnings	908,039	817,882	283,428	195,463
Accumulated other comprehensive income (and other reserves)	248,305	190,603	472,901	426,517
Independently reviewed interim profits	-	103,086	-	141,824
Common Equity Tier 1 capital before regulatory adjustments	5,389,255	4,278,291	3,614,221	3,621,697
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-140	-80	-140	-80
Intangible assets (net of related tax liability)	-2,023,053	-1,924,116	-465,053	-401,659
Losses for the current financial year	-72,921	-	-16,622	-
IFRS 9 transitional adjustments to CET1 Capital	93,202	98,150	94,766	107,298
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-2,002,913	-1,826,046	-387,050	-294,441
Common Equity Tier 1 (CET1) capital	3,386,342	2,452,244	3,227,171	3,327,255
Additional Tier 1 (AT1) capital instruments				
Capital instruments and the related share premium accounts	256,372	256,372	250,000	250,000
Of which: classified as equity under applicable accounting standards	256,372	256,372	250,000	250,000
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	250,000	214,216	-	-
Total Additional Tier 1 (AT1) capital instruments	506,372	470,588	250,000	250,000
Tier 1 capital	3,892,714	2,922,833	3,477,171	3,577,255
Tier 2 (T2) capital instruments				
Capital instruments and the related share premium accounts	-	-	598,125	597,560
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	598,125	501,494	-	-
Total Tier 2 (T2) capital instruments	598,125	501,494	598,125	597,560
Own funds	4,490,839	3,424,327	4,075,296	4,174,815

Note 16 Business combinations

On September 13, 2018, the subsidiary Klarna Bank AB (publ) entered into an agreement to acquire the operations of Close Brothers Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019. The consideration amounted to SEK 979m and was paid in cash. In the purchase price allocation, which is based on Klarna's accounting policies, SEK 998m is recognised as loans to the public, net. The gross amount is SEK 1,032m. Other assets and liabilities related to the loan portfolio are also part of the agreement. The acquisition aims to significantly strengthen Klarna's position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.

Close Brothers Retail Finance	Purchase price allocation
Loans to the public	998,133
Intangible assets	25,173
Other assets	4,775
Other liabilities	-49,004
Net identifiable assets and liabilities	979,077
Goodwill	-
Consideration	979,077

From the acquisition until June 30, 2019, Close Brothers Retail Finance's loan portfolio contributed by SEK 96,505k to the Group's total operating revenues, net. The total effect on the Group's net result is not identifiable since the personnel and indirect costs of Close Brothers Retail Finance are highly integrated to and not separable from other parts of Klarna's organisation.

Note 17 Significant events after the end of the reporting period

On August 6, 2019, the subsidiary Klarna Bank AB (publ) entered an agreement with the Commonwealth Bank of Australia, Australia's largest retail and commercial bank, to establish an exclusive partnership to strengthen the presence on the Australian and New Zealand markets.

On August 9, 2019, the company resolved to issue shares of USD 460m. Registration of the new shares is expected to occur during the third quarter. This will be used to ensure Klarna's continued growth.

No other significant events occurred after the closing date.

Income Statement, Parent Company

Amounts in SEkk	Jan - Jun 2019	Jan - Jun 2018	Jan - Dec 2018
Income from group companies	-5	-	472,382
Other income	3	-	-
Other external expenses	-2,134	-963	-2,094
Operating income	-2,136	-963	470,288
Income from financial items			
Other interest income and similar items	15,373	-	129
Financial expenses	-7	-	-434
Income after financial items	13,230	-963	469,983
Appropriations	-	-	116
Income tax	-2,833	212	-
Net income for the period	10,397	-751	470,099

Statement of Comprehensive Income, Parent Company

Net income for the period	10,397	-751	470,099
Total comprehensive income for the period	10,397	-751	470,099

Balance Sheet, Parent Company

Amounts in SEKk	Note	30 Jun 2019	31 Dec 2018	30 Jun 2018
Assets				
Financial non-current assets				
Shares and participations in group companies	3	3,278,662	3,278,391	2,857,942
Receivables from group companies	4	1,807,222	179,499	-
Total financial non-current assets		5,085,884	3,457,890	2,857,942
Current assets				
Receivables	5	16,895	169,499	171,826
Prepaid expenses and accrued income		123	-	-
Cash and bank balances		18,520	354,159	37,154
Total current assets		35,538	523,658	208,980
Total assets		5,121,422	3,981,548	3,066,922
Equity				
Share capital		2,051	1,986	1,967
Additional Tier 1 instruments		256,372	256,370	-
Retained earnings		4,781,620	3,251,772	3,065,314
Net income for the period		10,397	470,099	-751
Total equity		5,050,440	3,980,227	3,066,530
Untaxed reserves		-	-	116
Current liabilities				
Tax liabilities		2,708	-	-
Other liabilities	6	67,965	643	-
Accrued expenses and prepaid income		309	678	276
Total current liabilities		70,982	1,321	276
Total equity and liabilities		5,121,422	3,981,548	3,066,922

Statement of Changes in Equity, Parent Company

Amounts in SEkk	Restricted equity	Non-restricted equity			Total equity
	Share capital	Additional Tier 1 instruments	Retained earnings	Net income	
Balance as at January 1, 2019	1,986	256,370	3,251,772	470,099	3,980,227
Opening balance adjustment	-	2	-2	-	-
Transfer of previous year's net income	-	-	470,099	-470,099	-
<i>Net income for the period</i>	-	-	-	<i>10,397</i>	<i>10,397</i>
Total comprehensive income for the period	-	-	-	10,397	10,397
New share issue	65	-	1,066,209	-	1,066,274
Share warrants	-	-	-83	-	-83
Share-based payments	-	-	2,421	-	2,421
Additional Tier 1 instruments	-	-	-8,796	-	-8,796
Balance as at June 30, 2019	2,051	256,372	4,781,620	10,397	5,050,440
Balance as at January 1, 2018	1,967	-	3,063,822	7	3,065,796
Transfer of previous year's net income	-	-	7	-7	-
<i>Net income for the period</i>	-	-	-	<i>-751</i>	<i>-751</i>
Total comprehensive income for the period	-	-	-	-751	-751
Share warrants	-	-	-83	-	-83
Share-based payments	-	-	1,568	-	1,568
Balance as at June 30, 2018	1,967	-	3,065,314	-751	3,066,530
Balance as at January 1, 2018	1,967	-	3,063,822	7	3,065,796
Transfer of previous year's net income	-	-	7	-7	-
<i>Net income for the year</i>	-	-	-	<i>470,099</i>	<i>470,099</i>
Total comprehensive income for the year	-	-	-	470,099	470,099
New share issue	19	-	185,840	-	185,859
Share warrants	-	-	-117	-	-117
Share-based payments	-	-	7,700	-	7,700
Additional Tier 1 instruments	-	256,370	-5,480	-	250,890
Balance as at December 31, 2018	1,986	256,370	3,251,772	470,099	3,980,227

Cash Flow Statement, Parent Company

Amounts in SEk	Note	Jan - Jun 2019	Jan - Jun 2018	Jan - Dec 2018
Operating activities				
Operating income		-2,136	-963	470,288
Financial items, net		10,976	-	-
<i>Adjustments for non-cash items in operating activities</i>				
Result from divestment of shares in group companies		-	-	-470,098
Gain or loss from transactions with non-controlling interests		5	-	-
Group contribution, not received		-	-	-2,284
Taxes paid		-44	-37	-1
<i>Changes in assets and liabilities of operating activities</i>				
Change in other assets and liabilities		-1,407,371	1,132	-166,839
Cash flow from operating activities¹		-1,398,570	132	-168,934
Investing activities				
Investments in subsidiaries	3	-	-50	-50
Divestments of shares in subsidiaries		-	-	49,650
Cash flow from investing activities		-	-50	49,600
Financing activities				
New share issue		1,066,274	-	185,859
Share warrants		-83	-83	-117
Additional Tier 1 instruments		-	-	250,890
Change in non-controlling interests		1,224	-	-
Cash flow from financing activities		1,067,415	-83	436,632
Cash flow for the period		-331,155	-1	317,298
Cash and cash equivalents at the beginning of the period		354,159	37,155	37,155
Cash flow for the period		-331,155	-1	317,298
Exchange rate diff. in cash and cash equivalents		-4,484	-	-294
Cash and cash equivalents at the end of the period		18,520	37,154	354,159
Cash and cash equivalents include the following items				
Cash and bank balances		18,520	37,154	354,159
Cash and cash equivalents		18,520	37,154	354,159

¹ Cash flow from operating activities includes interest payments received and interest expenses paid.

Notes, Parent Company

Notes 1-2 in the Group apply to the Parent Company also.

Note 3 Shares and participations in group companies

			30 Jun 2019	31 Dec 2018
Participations in group companies			3,278,662	3,278,391
Group companies	No. of shares	Share	Book value	Book value
Klarna Bank AB (publ), Sweden, Corp. ID 556737-0431	152,607	97%	2,777,926	2,777,926
Klarna Midco AB, Sweden, Corp. ID 559146-5132	519,992	91%	500,736	500,465
Total			3,278,662	3,278,391

Note 4 Receivables from group companies

Klarna Holding AB has provided the subsidiary Klarna Bank AB (publ) with a line of credit. The credit receivable amounted to SEK 1,567,847k (0) as of June 30, 2019.

Note 5 Receivables

	30 Jun 2019	31 Dec 2018
Receivables from group companies	16,622	167,601
Other receivables	273	1,898
Total	16,895	169,499

Note 6 Other liabilities

	30 Jun 2019	31 Dec 2018
Unregistered share capital	67,131	-
Other liabilities	834	643
Total	67,965	643

Note 7 Contingent liabilities

The subsidiary Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facilities. The credit liability amounted to SEK 0k (417,741) as of June 30, 2019. Klarna Holding AB acts as a guarantor for Klarna Bank AB (publ)'s outstanding liability regarding this credit facility.

Definitions & Abbreviations

Capital requirement

Total assets and off balance sheet items, risk-weighted according to the capital adequacy rules for credit and market risk. The operational risks are measured and added as risk exposure amount, which only applies to the consolidated situation

Common Equity Tier 1 capital

Equity excluding proposed dividend, deferred taxes and intangible assets and certain other regulatory adjustments defined in Regulation (EU) No 575/2013 (CRR) and EU 241/2014

Cost/revenue ratio

Total expenses before credit losses divided by total operating revenues, net

Debt/equity ratio

Average liabilities in relation to average equity. The calculation of average liabilities and average equity is based on opening and closing balances for the reporting period

Equity/assets ratio

Equity as a percentage of total assets at the end of the reporting period

Merchants

Klarna's e-commerce customers are named merchants

Own funds (Total capital)

The sum of Tier 1 capital and Tier 2 capital

Pay later

Klarna's invoice product is called Pay later

Pay now

Klarna's product for immediate settlement is called Pay now

Return on assets*

Net income for the last twelve months as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the last twelve months

Return on equity*

Operating income for the last twelve months as a percentage of average equity. The calculation of average equity is based on opening and closing balances for the last twelve months

Slice it

Klarna's account product is called Slice it

SME

Small and medium-sized enterprise

Tier 1 capital

The sum of Common Equity Tier 1 capital and additional Tier 1 capital

Tier 2 capital

Subordinated liabilities which are eligible for inclusion in the total capital

Total capital ratio

Total capital as a percentage of risk exposure amounts

*Alternative Performance Measures (APM) are financial measures of historical or future financial position, performance or cash flow that are not defined in applicable regulations (IFRS) or in the EU Capital Requirements Regulation and Directive CRR/CRD IV. APMs are used by Klarna when relevant to assess and describe Klarna's financial situation and provide additional relevant information and tools to enable analysis of Klarna's performance. APMs on return on equity and return on assets provide relevant information on the performance in relation to different investment measurements. The cost on revenue ratio provides information on Klarna's cost efficiency. All these measures are not directly comparable with similar key measures presented by other companies.

CEO's affirmation

The CEO certifies that this interim report provides a fair overview of the Parent Company's and the Group's operations, their financial position and results, and describes material risks and uncertainties that the Parent Company and other companies in the Group are facing.

Stockholm 2019-08-23

Sebastian Siemiatkowski
CEO

Our review was submitted on 2019-08-23

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Further information

For more information visit the Company website at www.klarna.com

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The information in this report is such that the subsidiary Klarna Bank AB (publ) is obliged to make public under the EU Market Abuse Regulation and the Securities Market Act. This information was submitted for publication, through the agency of the contact persons set out above, at 08.00 CET on August 29, 2019.



THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

Review report

To the board of directors of Klarna Holding AB, org.nr. 556676-2356

Introduction

We have reviewed the condensed interim report for Klarna Holding AB as at June 30, 2019 and for the six months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the Swedish Annual Accounts Act (ÅRL). Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 Review of Interim Financial Statements Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and ÅRKL regarding the Group, and in accordance with ÅRL regarding the Parent Company.

Stockholm, August 23, 2019

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant