

Publication of information concerning capital adequacy and liquidity management

27 August 2020

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 June 30, 2020.

Summary of capital adequacy information	Consolidated situation	Klarna Bank AB
SEkk	30 Jun 2020	30 Jun 2020
Own funds		
Common Equity Tier 1 capital	6,993,845	4,921,999
Additional Tier 1 capital	473,941	250,000
Tier 2 capital	552,144	598,993
Own funds	8,019,930	5,770,992
Risk exposure amount		
Credit risk according to standardized approach	29,712,803	30,814,882
Market risk according to standardized approach	304,352	1,676,057
Operational risk according to alternative standardized approach	1,415,645	1,473,836
Credit valuation adjustment	7,232	7,232
Total risk exposure amount	31,440,032	33,972,007
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	22.3%	14.5%
Tier 1 capital ratio	23.8%	15.2%
Total capital ratio	25.5%	17.0%
Combined buffer requirement incl. the requirements of 575/2013 Art. 92(1)(a)	7.1%	7.1%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	0.1%
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	17.8%	10.0%
Leverage ratio		
Tier 1 capital	7,467,786	5,171,999
Total Leverage ratio exposure amount	45,047,395	44,822,016
Leverage ratio	16.6%	11.5%

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	3,031,682	0	0
Regional governments or local authorities	2,689,556	0	0
Public sector entities	26,116	0	0
Multilateral development banks	1,662,135	0	0
Institutions	1,962,872	392,928	31,434
Corporates	2,738,200	2,659,431	212,754
Retail	30,931,661	23,198,746	1,855,900
Exposures in default	602,737	697,133	55,771
Covered bonds	2,081,274	208,127	16,650
Equity	135,687	165,809	13,265
Other items	1,689,113	2,390,629	191,250
Total	47,551,033	29,712,803	2,377,024

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	2,891,151	0	0
Regional governments or local authorities	2,689,556	0	0
Public sector entities	26,116	0	0
Multilateral development banks	1,662,135	0	0
Institutions	1,129,234	226,201	18,096
Corporates	4,520,981	4,442,211	355,377
Retail	28,978,360	21,733,770	1,738,702
Exposures in default	549,890	644,286	51,543
Covered bonds	2,081,274	280,127	16,650
Equity	1,480,172	1,510,294	120,823
Other items	1,399,144	2,049,993	163,999
Total	47,408,013	30,814,882	2,465,190

Internally assessed capital requirement

As of June 30, 2020, the internally assessed capital requirement for the consolidated situation amounted to SEK 3.8bn and for Klarna Bank AB (publ) to SEK 4.1bn, 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 June 30, 2020, 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 June 30, 2020, Klarna's liquidity reserve amounted to SEK 8.2bn 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. The capital adequacy calculations are adjusted with a dynamic and two static amounts over a period spanning 5 years. From June 2020 the transitional rules also have taken into account the effects of Covid-19 on the IFRS9 model, which prolonged the period of application.

SEKk	Consolidated situation			
	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 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	6,993,845	7,189,416	7,439,312	7,665,982
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	6,573,102	6,756,871	7,017,798	7,381,004
Tier 1 capital	7,467,786	7,674,754	7,913,117	8,157,562
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	7,047,043	7,242,209	7,491,603	7,872,584
Total capital	8,019,930	8,236,647	8,448,159	8,731,239
Total capital as if IFRS 9 transitional arrangements had not been applied	7,599,187	7,804,102	8,026,644	8,446,260
Risk exposure amounts				
Total risk exposure amount	31,440,032	27,236,996	26,445,452	25,434,302
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	31,019,289	26,804,451	26,023,938	25,149,324
Capital ratios (as percentage of total risk exposure amount)				
CET1	22.3%	26.4%	28.1%	30.1%
CET1 as if IFRS 9 transitional arrangements had not been applied	21.2%	25.2%	27.0%	29.3%
Tier 1	23.8%	28.2%	29.9%	32.1%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	22.7%	27.0%	28.8%	31.3%
Total capital	25.5%	30.2%	31.9%	34.3%
Total capital as if IFRS 9 trans. Arrangements had not been applied	24.5%	29.1%	30.8%	33.6%
Leverage ratio				
Total Leverage ratio exposure amount	45,047,395	43,719,236	38,528,570	33,553,450
Leverage ratio	16.6%	17.6%	20.5%	24.3%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	15.8%	16.6%	19.4%	23.5%

Comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

Klarna Bank AB

SEKk	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Available capital (amounts)				
Common Equity Tier 1 (CET1) capital	4,921,999	4,214,113	4,570,245	4,078,857
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	4,497,458	3,851,416	4,261,842	3,899,717
Tier 1 capital	5,171,999	4,464,113	4,820,245	4,328,857
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	4,747,458	4,101,416	4,511,842	4,149,717
Total capital	5,770,992	5,062,750	5,418,570	4,927,098
Total capital as if IFRS 9 transitional arrangements had not been applied	5,346,451	4,700,053	5,110,166	4,747,958
Risk exposure amounts				
Total risk exposure amount	33,972,007	30,438,698	28,793,937	30,302,991
Total risk exposure amount as if IFRS 9 transitional arrangements had not been applied	33,547,466	30,076,001	28,485,533	30,123,851
Capital ratios (as percentage of total risk exposure amount)				
CET1	14.5%	13.8%	15.9%	13.5%
CET1 as if IFRS 9 transitional arrangements had not been applied	13.4%	12.8%	15.0%	13.5%
Tier 1	15.2%	14.7%	16.7%	14.3%
Tier 1 as if IFRS 9 transitional arrangements had not been applied	14.2%	13.6%	15.8%	14.4%
Total capital	17.0%	16.6%	18.8%	16.3%
Total capital as if IFRS 9 trans. arrangements had not been applied	15.9%	15.6%	17.9%	16.4%
Leverage ratio				
Total Leverage ratio exposure amount	44,822,016	44,142,693	38,928,014	33,997,279
Leverage ratio	11.5%	10.1%	12.4%	12.7%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	10.7%	11.7%	12.3%	11.5%

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			Regulation (EU) No 575/2013 Article reference
SEKk	Consolidated situation	Klarna Bank AB	
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	9,081,566	5,857,892	26(1), 27, 28, 29
of which: Share capital	2,289	52,752	26(3)
of which: Share premium	9,079,277	5,805,140	26(3)
Retained earnings	3,914	-590,652	26(1)(c)
Accumulated other comprehensive income (and other reserves)	224,240	509,380	26(1)
Independently reviewed interim profits			26(2)
Common Equity Tier 1 capital before regulatory adjustments	9,309,720	5,776,620	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments	-498	-498	34, 105
Intangible assets (net of related tax liability)	-2,215,477	-638,498	36(1)(b), 37
Losses for the current financial year	-520,643	-640,167	36(1)(a)
IFRS 9 transitional adjustments to CET1 Capital	420,743	424,542	473a(8)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,315,875	-854,621	
Common Equity Tier 1 (CET1) capital	6,993,845	4,921,999	
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	217,569		85, 86
Additional Tier 1 (AT1) capital before regulatory adjustments	473,941	250,000	
Additional Tier 1 (AT1) capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 (AT1) capital			
Additional Tier 1 (AT1) capital instruments	473,941	250,000	
Tier 1 capital (T1 = CET1 + AT1)	7,467,786	5,171,999	
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts		598,993	62, 63
Qualifying own funds instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third party	552,144		87, 88
Tier 2 (T2) capital before regulatory adjustment	552,144	598,993	
Tier 2 (T2) capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 (T2) capital			
Tier 2 (T2) capital instruments	552,144	598,993	
Own funds (TC = T1 + T2)	8,019,930	5,770,992	
Total risk exposure amount	31,440,032	33,972,007	

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

Common Equity Tier 1	22.3%	14.5%	92(2)(a)
Tier 1	23.8%	15.2%	92(2)(b)
Total capital	25.5%	17.0%	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)	7.1%	7.1%	CRD 128, 129, 130, 131, 133
of which: capital conservation buffer requirement	2.5%	2.5%	
of which: countercyclical buffer requirement	0.1%	0.1%	
Common Equity Tier 1 available to meet buffer requirement, less minimum capital requirement.	17.8%	10.0%	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)	467,682	433,902	36(1)(c), 38, 48