Annual financial statement release

Klarna Bank AB (publ)
January–December 2020

Klarna.

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Financial information

The information is presented for the Klarna Bank Group.

Full year 2020

Strong performance of the business over the year has delivered:

46% (32)[1]

Gross merchandise volume[2] – YoY growth

USD 53bn[3] (35)

Gross merchandise volume – SEK 484bn (332)

40% (31)

Total net operating income – YoY growth

USD 1,087m (753m)

Total net operating income – SEK 10,000m (7,155)

29.5% (28.1)

CET 1 ratio

July–December 2020

46% (35)

Gross merchandise volume – YoY growth

USD 31bn[4] (19)

Gross merchandise volume – SEK 270bn (184)

43% (30)

Total net operating income – YoY growth

USD 627m (400)

Total net operating income – SEK 5,482m (3,841)

29.5% (28.1)

CET 1 ratio

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[1]All growth figures are based on SEK results figures.

[2]Total monetary value of sold products and services through Klarna over a given period of time.

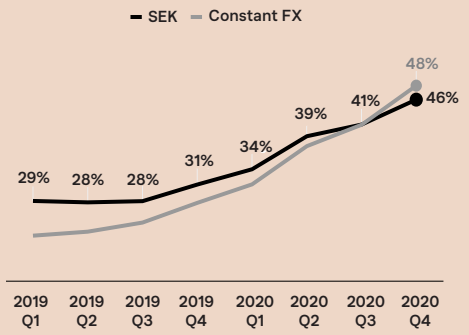
[3]Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2019 and 2020 have been used; 1 USD equals approximately 9.5 SEK for full year 2019, and 1 USD equals approximately 9.2 SEK for full year 2020.

[4]Klarna's results are reported in SEK. To arrive at USD values, the average exchange rates for 2019 and 2020 have been used; 1 USD equals approximately 9.6 SEK for the last six months 2019, and 1 USD equals approximately 8.7 SEK for last six months 2020.

Highlights of the year.

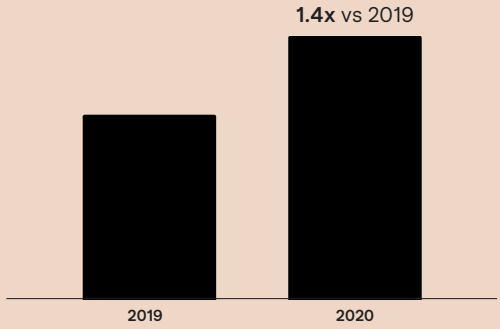
Accelerated growth

Year-on-year growth in gross merchandise volume (rolling 12 months).

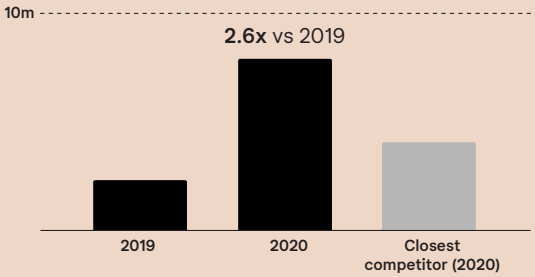


Active retailers globally

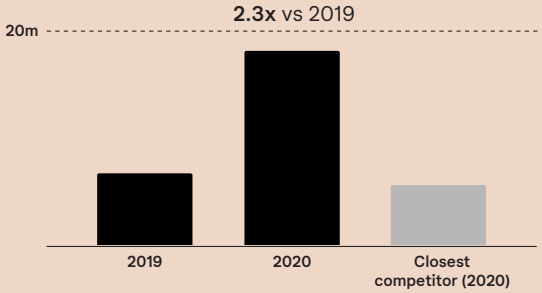
Growth in number of retailers with transactions during the last twelve months.



US app installs

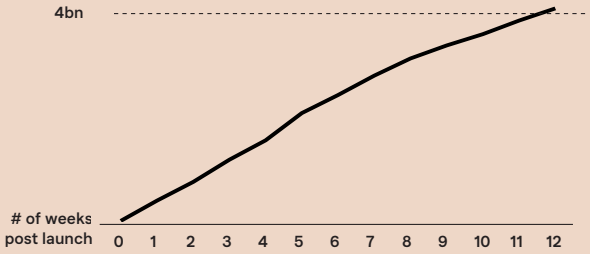


Global app installs



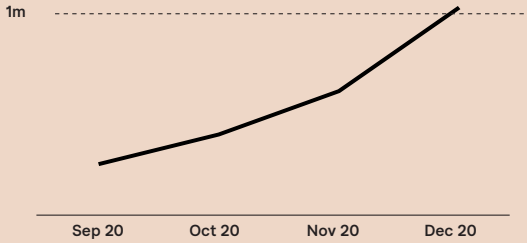
Savings account

Immediate traction for our savings accounts with competitive interest rates during the first 12 weeks in Sweden. Amount of SEK in deposit account.



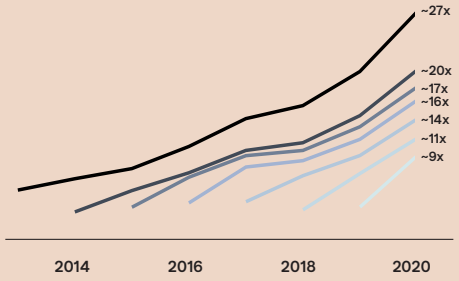
Vibe - Klarna loyalty program

The first loyalty program of its kind, rewarding consumers who pay on time. Launched in September. # of vibe members in the US.



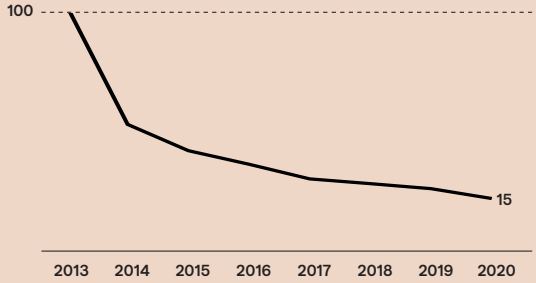
Average number of orders

Our most mature market, Sweden, showcases the strength of our offering and the frequency per cohort increases over time.



Managing down late fees

Indexed late fees as share of volume. Late fees are defined as fees that originate from consumers not paying on time.



To our Shareholders

Dear Shareholders,

2020 will be forever remembered as the year Covid-19 changed everything we define as everyday life. This is a tragedy that sadly has impacted many, and I want to take the opportunity to share my condolences with everyone that has suffered and lost loved ones to the pandemic. Covid-19 has also had a huge impact on businesses big and small; everyone is simply trying to find their own way through this but I particularly feel for those whose livelihoods have been impacted over the last year. To our own Klarna employees, I am deeply impressed with how you have seamlessly managed the transition to new ways of working while continuing with the same engagement, passion and determination to deliver a superior experience for our consumers and retailers. Klarna always seeks to move at speed, but how our employees not only adapted but met the accelerated demand with ease has been quite remarkable. Together, we have maintained the high level of service that our consumers and partners have come to expect from us. This makes me very proud.

The last year has seen consumer expectations of how they bank, pay and shop grow, despite the limiting factors of the pandemic. More and more people are shopping online, across demographics, and in new retail sectors, gaining trust and confidence in the online marketplace. I cannot see how this will return to pre-pandemic levels now since this behaviour is so well established. But as we return to physical stores, consumers now more than ever expect a seamless convergence of online and in-store experience. Why should shopping in-store limit what a good shopping experience now looks like? Why shouldn't consumers be able to shop in person but pay in a way they do online that suits them better? These are challenges Klarna has *already* responded to. While we have supported our retailers to expedite their transition to online, we also accelerated the launch of new in-store services meeting evolving consumer expectations and supporting retail partners in creating a smoooth experience across channels. Naturally our ambitions for 2021 are high: more products across more markets, continued innovation, and creating new ways for retailers to connect with consumers, building on our extensive shopper insight and technology. And all of this is on one platform and with one global partner - Klarna.

While the last decade was about the disruption of retail, I am convinced this decade will be about the disruption of retail banking and the credit card industry - and to the benefit of consumers. In the US alone, the Federal Reserve Bank of New York reported that credit card balances are $108 billion lower than in 2019[5], and this is the largest yearly decline in the history of the data (since 1999) - accelerating the structural shift from credit to debit despite the economic pressures of a pandemic. Consumers are demanding greater control of their finances, simplicity and flexibility, and this is driving both Klarna's ambitions for innovation, and our growth. In 2020, our volumes grew by 46% to USD 53bn, resulting in USD 1.1bn of net operating income for Klarna (+40%).

Our continued investment in innovation means we are now the preferred growth partner for more than 250,000 retailers, working with many of them across geographies as a truly global partner. In the US we have reached a record in shopping volume in the app, and an all-time high in monthly active app users. At the close of Q4,

[5] https://www.newyorkfed.org/microeconomics/hhdc

Klarna was ranked in the Top 10 most downloaded shopping apps in US app stores for the entire period, ensuring Klarna is a key competitive advantage for retailers to attract new consumers. As a result, thousands of new partners have joined Klarna, including Macy's, Sephora, Urban Outfitters, Lululemon and Etsy. We are now working with more top-100 US retailers than all our closest competitors combined, and the pipeline of new partners is strong.

Our offering is incredibly relevant and it is clearly resonating with our 87 million active consumers. The strength of the Klarna platform is powering our growth, but we can never be complacent. We must evolve every day and continue to raise the bar for the industry. We are strongly committed as a business to positively contribute to a more sustainable world. Klarna's own carbon neutrality for the last few years is a building block for an ambitious series of actions we will undertake in 2021. The global context we operate in continues to shift at a rapid pace and we are investing in key areas, including people, to further strengthen our capabilities and efficiencies, laying the foundation for continued growth. This year, more than 30% of our new hires were within engineering, reflecting our focus on innovation and anticipating consumer needs that have yet to crystallize. We will continue to build on our global offering at pace. In 2020 we launched our pay later services in four new markets, enabling retail partners to integrate with just one partner and platform across 17 global markets. Based on this, and our strong balance sheet and decreasing credit losses in relation to volume, I feel confident that we are in a very strong position to meet the accelerated demand in the coming years.

We believe that the value we create is directly linked to the problems that we can solve for our consumers. As we look forward, we see a tremendous opportunity to continue to serve our consumers in new and better ways by enabling them to shop, pay and bank in a convenient, transparent and intuitive way, saving them time and money, and liberating them from worry. Financial health is key to this ambition, and Klarnasense, our global platform to support mindful and healthy spending habits, will be developed to support even more consumers to shop wisely and sustainably, managing their finances with confidence. I want to thank the millions of consumers who believe in us, appreciate what we do and challenge us to never stop improving. We are still just at the beginning and our focus on providing you with the best possible experience remains relentless.

To our retail partners, this has been far from an easy year, and I am impressed by your resilience and immense adaptability, and what we have been able to accomplish together in challenging circumstances. At Klarna, we remain committed to helping you by connecting you to consumers, delivering a superior experience and supporting you in your growth ambitions every day.

To our shareholders, we are thankful for the confidence you continue to show in our ambitious plans, particularly during this period, and we are grateful for your continued support.

Sebastian Siemiatkowski,
CEO and Co-founder

Key achievements 2020

The year of 2020 was defined by Covid-19. The pandemic is a tragedy and has had wide-ranging impacts at a personal, national and economic level. Like everyone else Klarna had to adapt, but we have seen two clear changes: an acceleration in the structural shift of preference from credit to debit amongst consumers, and e-commerce becoming the increasingly dominant and at times, the only, engagement channel for retail.

Our ambitions for 2020 were naturally high: increase consumer preference by building the most consumer centric offering in the industry; grow our user base by enabling Klarna wherever and however consumers wish to shop and confirm our position as the preferred growth partner for retailers globally. We are pleased with the results - but most importantly - they establish a strong platform for continued growth in the year ahead.

- 87 million active consumers[6] globally are now choosing Klarna for a healthier, simpler and smarter way to shop, pay and bank every day.
- For 250,000+ retailers including Macy's, Ralph Lauren, Sephora, Urban Outfitters, Etsy, North Face, Saks OFF 5TH, H&M and Lululemon, Klarna is the global partner of choice to connect them with consumers, drive loyalty and deliver growth.
- US growth continues to accelerate strongly, with more than 1 million new consumers joining Klarna each month in Q4, the Klarna app reaching record shopping volumes in December, and at the close of Q4 we were ranked among the Top 10 most downloaded shopping apps in US app stores for the entire period.
- Record gross merchandise volumes processed on the platform, USD 53bn (+46%), generating USD 1.1bn in Total net operating income (+40%), breaking the USD 1bn threshold for the first time.
- Credit losses as a percentage of total gross merchandise volume decreased across all major markets.
- Proven concept to expand to new markets; pay later offering live in four new markets Australia, Belgium, Spain, and Italy, and established presence in China to support Chinese retail partners scaling to a global consumer base.

[6] Defined as having used Klarna's services at least once the last 12 months.

Our commitment to consumers and retailers

Klarna is committed to helping consumers shop, pay and bank with ease. Our continued investment in flexible and innovative products under our trusted and engaging brand offers consumers convenience, inspiration and control.

Our global partnerships with retailers give consumers a superior shopping experience, while Klarna provides retailers with a smooth operating platform and enhanced customer acquisition which powers their growth. Covid-19 has forced retailers to quickly adapt to a transformed retail environment by moving to predominantly online channels but equally recognizing the importance of developing an in-store experience which meets evolving consumer expectations. The investment we have made in our offering has supported this demand. This has driven adoption of Klarna by a broader demographic of consumers as well as retailers across new vertical segments.

Investing for growth in smart and intuitive products

US achievements

14m
US consumers +115% YoY.

7m
app downloads in the US.

80+
NPS. US average NPS is +34 financial services.[1]

[1] Retently, 2020

- The **Klarna app** powers the whole shopping journey, giving consumers inspiration, convenience and rewards. Continued investment in new functionality, such as price drop notifications and wish lists, is driving engagement and enabling consumers to make the best purchases for them, at the right time. The offering is clearly resonating: monthly active app users reached record levels of 18 million globally and 3.5 million in the US.
- **Vibe,** the first loyalty program of its kind in our industry, is now live in the US and Australia, and rewards consumers who pay for their goods on time, gaining one million members during the first three months.
- **Klarna in-store** is now live in 10 markets, enabling Klarna contactlessly for consumers while supporting multichannel retailers. US consumers can now shop in over 60,000 physical stores, while in Australia, Klarna is available in any store through the app.
- The **Klarna card** has seen strong volume growth of 137% in Sweden and Germany as it enables consumers to pay now or pay later with Klarna everywhere, with the added benefits of no fees, no added FX cost and instant purchase notifications. The popularity of the Klarna card is evident as Klarna users shift a larger portion of their everyday purchases to Klarna, and we have seen an increase of 160% in volumes after sign up.

- The integrated banking experience to manage purchases, payments and **savings** on one platform is now live in Sweden, and SEK 4bn was deposited through our new accounts within the first 12 weeks.

Empowering consumers with control and convenience

Consumers should have complete control of their finances, saving them time, money and worry. Our consumer-centric offering is empowering consumers to intuitively manage their purchases. To further expand our efforts within this area we have launched:

- The global platform **"KlarnaSense",** encouraging more mindful shopping has resonated strongly with consumers and will be launched across markets starting in 2021.
- The **"Never Forget Test"**, highlighting the services and app features to pay on-time, incentivised by the opportunity to earn back any existing fees.
- **"Mission Zero"** (Nollmissionen), our commitment to reduce complaints to zero and increase transparency as customer satisfaction is a key driver of customer acquisition and retention. Complaints in Sweden have reduced by 50% since 2018. It will become a global platform in 2021.
- The global **"Consumer Council"**, allowing us to engage directly with consumers and their feedback is used to improve our products and drive customer satisfaction.

Why 87 million consumers chose Klarna

The global shift towards e-commerce continues and more than 87 million active consumers have used Klarna in 2020 as they look for a smarter way to shop, pay and bank. To find out even more about how Klarna supports consumers, we surveyed 7,100 UK Klarna consumers, and below are the three main reasons they chose to shop with Klarna.

Solutions that give consumers control over their personal finances

67% said they use us to spread the cost of a purchase into smaller, more manageable amounts.

Klarna offers various flexible payment solutions and app features that empower consumers to manage their finances and budget in a responsible manner.

Engaging features that make shopping smooth

48% said they use us to try on a few different sizes at home, and keep the one that fits best.

The Klarna app provides an end-to-end hassle-free shopping experience that helps consumers through every step. From discovering what they love to reporting a return, it allows consumers to try on their favorite items in the comfort of their home without having to part with any money before deciding what they want to keep.

Comfort and safety when shopping online

36% said they use us because of the additional protection it offers them when shopping online.

Knowing who to trust when shopping online can be hard. Earning consumers' trust has always been a top priority at Klarna and consumers can count on Klarna's Buyer Protection Policy, which states our commitment to supporting our consumers in finding the best solution in the unlikely event that there is a problem with their purchase, as well as in our capacity to fully authenticate retailers who integrate Klarna into their checkout processes.

Global partner of choice

22m
clicks from Klarna to retailers in the US (December 2020).

250k+
retail partners across verticals.

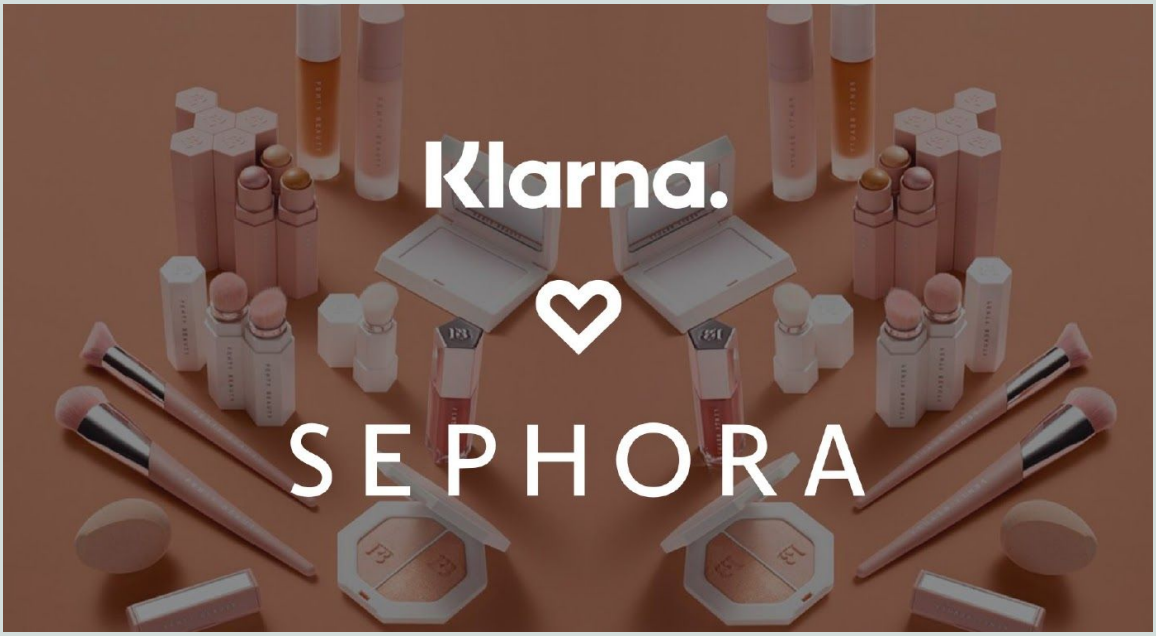
17
markets. 4 new in 2020 and growing.

Global retailers want global partners. One platform, across 17 markets, with 87 million active consumers makes Klarna the global partner of choice.

- Klarna has over 250,000 retailer partners live globally, including some of the top 100 highest grossing retailers in the US[7]; H&M, Macy's, Sephora, Ralph Lauren, Etsy, Urban Outfitters, IKEA, Samsung, One Peloton, Anthropologie, and Nike.
- The Klarna app has proven to be a key driver of customer acquisition for our retail partners, and in December alone we enabled 22 million monthly clicks to retailers in the US. As we continue to expand our omnichannel experience globally, our consumer base grows to the benefit of our retail partners.
- Investment in our brand continues to benefit our retail partners, with campaigns designed to engage consumers and drive preference and loyalty for Klarna. We reached 1.2 billion total global impressions by partnering with Lady Gaga and Bea Åkerlund for Valentine's day ("Get What You Love"). Sneaker lovers ("Sneakerheads") and gamers ("Playing for keeps") played to vertical sectors, while our "Clothes Love All" celebrated diversity and body positivity, reflecting our brand values.

[7] Data: Digital Commerce 360, 2020

Klarna x Sephora



Smoooth, fast set up across channels and markets

Sephora wanted to provide new levels of financial flexibility online, in-app and in-store across the US and Canada to help their clients shop more easily for the beauty brands and essentials they love. Klarna enabled Sephora to go live with new payment options across markets and channels in less than two months, making us the partner of choice across global markets, with Klarna launching across Sephora in Italy and Spain.

Meeting consumers needs, driving consumer purchases

"Being able to spread a payment over time is liberating for our clients. They can buy complimentary items that complete their collection, color palette, or skin care regime all at the same time, rather than split them over two or three transactions."

Carolyn Bojanowski, General Manager of E-commerce at Sephora US

Klarna drives retailer growth

Sephora launched with Klarna in May 2020, and has so far seen:

- +65% increase in average order value (AOV) in physical stores in North America.
- +36% increase in AOV on their mobile app in North America.
- +35% increase in AOV on their webstore in North America.

Strong base of more than 250,000 retail partner

Fashion			
ANTHROPOLOGIE	H&M	EXPRESS	Abercrombie & Fitch
RIVER ISLAND	GOOD AMERICAN	asos	boohoo

Premium Fashion			
Theory	bloomingdale's	Saks Fifth Avenue	macy's
RALPH LAUREN	CALVIN KLEIN	FARFETCH	

Shoes & Accessories				
FINISH LINE	Dr. Martens	pandora	JD	DANIEL WELLINGTON

Beauty & Cosmetics		
SEPHORA	BEAUTY BAY	bluemercury makeup · skincare · spa
ADOREBEAUTY	Charlotte Tilbury	BEAUTYCOUNTER

Sports & Outdoors			
GYMSHARK	THE NORTH FACE	SurfStitch	PELOTON
BURTON	HIBBETT SPORTS	Timberland	lululemon

Marketplace, Electronics & Entertainment			
Etsy	ntwrk	AliExpress	GameStop POWER TO THE PLAYERS
dyson	Lenovo	LG	Fender
SAMSUNG	ticketmaster	overstock	

Business overview.

Business overview

The Board and the CEO of Klarna Bank AB (publ) hereby submit the report for the period July 1 – December 31, 2020 and the full year. Klarna Bank AB (publ)'s parent company is Klarna Holding AB (publ). This report presents the figures for Klarna Bank AB (publ) and its subsidiaries. The report has been prepared in thousands of Swedish kronor unless otherwise stated.

Information about the business

Klarna Bank AB (publ) is an authorized bank and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen).

Klarna is a leading global provider of innovative payments and shopping services and we continuously develop new products and services to elevate the entire shopping experience for consumers, which in turn drives value for our retail partners. At the core of everything we do is the focus to give our consumers the choice and control of how to shop and manage their personal finances in a sustainable way. Together our products and services build the 'Klarna everywhere' concept, enabling consumers to choose how, where and when to shop, pay and bank with Klarna, based on their own needs and preferences.

Our success to date is a result of the high degree of trust that has been built with consumers, retailers and partners in all markets. This trust is critical in the financial sector, and maintaining it requires that we operate 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. Klarna's personal data protection officer is responsible for ensuring that all personal details are handled in accordance with the General Data Protection Regulation (GDPR).

Klarna was founded in 2005 in Sweden, and has been a fully licensed bank since 2017, active in 17 markets.

Business results

Net operating income

In 2020 growth accelerated in both new and core markets. The step-change in e-commerce penetration globally, the structural shift from credit to debit combined with our attractive offering and enhanced features has driven this growth. As a result, gross merchandise volume increased by 46% YoY to SEK 484bn (USD 53bn) and Total net operating income increased by 40% YoY to SEK 10,000m (USD 1,087m) at period-end.

Merchant revenue increased by 57%, above the level of gross merchandise volume growth, as interest-free products in the US and the UK grew well ahead of the group average. Commission income grew at a lower pace by 47% YoY to SEK 7,673m (USD 834m) as we continued to actively manage down late fees in the Nordics. We intend to diversify our revenue streams with a particular focus on affiliate services as we become a key customer acquisition channel for retailers.

Growth in interest income (SEK 3,265m, USD 355m) of 17% YoY remained below that of total net operating income as consumer demand for our interest-free, shorter duration payment products outpaced other payment alternatives.

Interest expenses grew to SEK 601m (USD 65m) at period-end driven by our rapid growth of gross merchandise volume, as well as additional liquidity buffers to ensure business stability.

Operating expenses

We are committed to investing in expanding and enhancing our consumer-focused product offering and increased brand awareness, with a focus on the US and UK, and continued market expansion. This year we launched in four new markets: Australia in partnership with Commonwealth Bank of Australia (CBA), Belgium, Spain and Italy. Consequently, our operating expenses increased by 43% as we built scale in every market with the goal of becoming the clear global market leader. This expansion has required increased resources globally, with the average number of full-time equivalents (FTEs) increasing by 44% compared to the same period last year, to 3,238.

Net credit losses of SEK 2,531m (USD 275m) increased by 36%, slower than gross merchandise volume, showing continued improvement during the year. As a proportion of total gross merchandise volume losses fell across all our major markets, with the sharpest improvements in the US and the UK. We continue to build our global database and leverage our underwriting technology across markets, which allows us to simultaneously optimize acceptance rates for retailers and have a prudent approach towards our consumers, whilst driving a continuous improvement in relative losses on a market by market basis.

Liquidity and funding

Volume growth contributed to an increase in Loans to the public of 41% YoY to SEK 41,718m (USD 4,535m). Growth has been funded by the increase in Deposits from the public, which are primarily driven by EUR deposits.

The average duration of our credit portfolio is ~40 days. This means we can steer balance sheet growth and related risk quickly. In the context of the current macro environment, we maintain a reserve of SEK 70m as market conditions remain uncertain in light of Covid-19 and its related effects.

Capital adequacy has strengthened compared to the last year due to equity raises in H2 2020 and Klarna is now at a CET1-ratio of 29.5%, creating a strong capital position.

Branches abroad

Klarna Bank AB (publ) operates Klarna Bank AB UK branch.

Since June 2020, Klarna Bank AB (publ) operates Klarna Bank AB German branch.

Significant events during the period

Klarna Bank AB (publ) has added a reserve totalling SEK 70m during the period for potentially increased credit risk given the Covid-19 situation and its effect on macroeconomic factors.

On June 1, 2020, a cross border merger between Klarna GmbH and Klarna Bank AB (publ) was carried out. Klarna GmbH was merged into Klarna Bank AB, which is present in Germany through its German branch Klarna Bank AB German Branch. The merger resulted primarily in an increase in tangible assets of SEK 400m, an increase in equity of SEK 85m and in lease liabilities of SEK 190m in Klarna Bank AB (publ).

In June, November and December 2020, Klarna Bank AB (publ) received unconditional shareholders' contributions of SEK 1,000m, SEK 500m and SEK 1,000m respectively from Klarna Holding AB (publ).

Future development

Klarna continues to establish its position as a leading global payments provider and shopping service by creating an elevated shopping experience, supporting retailer growth and driving consumer engagement and loyalty. With a proven concept for market expansion, Klarna will continue to grow by entering new markets and continuing to diversify revenue streams, including expanding new non-credit and affiliate services. Klarna will further enhance the offering towards both retailers and consumers across markets, and following the successful launch of the savings accounts, Klarna will

go further into establishing an integrated banking experience for consumers. By continuing to build global consumer-centric products that create an exciting shopping experience, Klarna will be able to offer services that are even more tailored to each consumer, therefore setting up a platform for driving sustained preference and growth for the future.

Risk management

Klarna is through its business activities subject to a number of different risks where credit risk is the most significant one. Other major risks are operational risk, liquidity risk and business 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 managers 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 control functions that report to the CEO and the Board. The functions consist of Risk Control, Engineering Assurance and Compliance. 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 control, including reporting of adherence to risk appetites, limits and frameworks as well as ensuring 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.

Group financials.

Five Year Summary Jan - Dec, Group

Amounts in SEKk	Jan - Dec 2020	Jan - Dec 2019	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2016
Income statement					
Total net operating income	10,000,104	7,154,668	5,450,781	4,158,045	3,289,503
Operating profit	−1,629,127	−1,088,649	160,910	523,987	168,300
Net profit for the year	−1,375,809	−902,356	105,224	345,613	113,427
Balance sheet					
Loans to credit institutions	2,614,447	1,907,129	2,367,631	1,211,778	1,234,684
Loans to the public	41,717,591	29,654,552	19,979,002	13,874,164	8,450,037
All other assets	17,463,216	8,305,879	5,513,199	3,901,290	2,397,103
Total assets	**61,795,254**	**39,867,560**	**27,859,832**	**18,987,232**	**12,081,824**
Liabilities to credit institutions	2,414,897	4,939,524	1,418,054	396,965	754,944
Deposits from the public	30,834,677	12,287,653	14,581,769	8,491,654	5,839,490
All other liabilities	22,221,717	17,344,917	7,717,750	6,065,083	2,870,025
Total equity	6,323,963	5,295,466	4,142,259	4,033,530	2,617,365
Total liabilities and equity	**61,795,254**	**39,867,560**	**27,859,832**	**18,987,232**	**12,081,824**
Key ratios and figures[1]					
Return on equity	−28.0%	−23.1%	3.9%	15.8%	6.6%
Return on assets	−2.7%	−2.7%	0.4%	2.2%	1.1%
Debt/equity ratio	7.7	6.2	4.7	3.7	3.1
Equity/assets ratio	10.2%	13.3%	14.9%	21.2%	21.7%
Cost/revenue ratio	91.0%	89.2%	82.6%	75.4%	82.0%
Own funds (Total capital)	13,529,578	8,448,158	3,424,327	2,830,504	1,928,585
Capital requirement	3,391,228	2,115,637	1,820,881	1,244,297	820,138
Total capital ratio	31.9%	31.9%	15.0%	18.2%	18.8%
Average number of full-time equivalents	3,238	2,248	1,713	1,380	1,244

[1] See "Definitions and Abbreviations" for definitions of how the ratios are calculated.

Five Year Summary Jul - Dec, Group

Amounts in SEKk	Jul - Dec 2020	Jul - Dec 2019	Jul - Dec 2018	Jul - Dec 2017	Jul - Dec 2016
Income statement					
Total net operating income	5,482,244	3,840,588	2,946,510	2,264,878	1,713,529
Operating profit	−939,173	−1,010,887	49,263	203,480	34,895
Net profit for the period	−824,051	−818,828	34,206	117,169	16,931
Balance sheet					
Loans to credit institutions	2,614,447	1,907,129	2,367,631	1,211,778	1,234,684
Loans to the public	41,717,591	29,654,552	19,979,002	13,874,164	8,450,037
All other assets	17,463,216	8,305,879	5,513,199	3,901,290	2,397,103
Total assets	**61,795,254**	**39,867,560**	**27,859,832**	**18,987,232**	**12,081,824**
Liabilities to credit institutions	2,414,897	4,939,524	1,418,054	396,965	754,944
Deposits from the public	30,834,677	12,287,653	14,581,769	8,491,654	5,839,490
All other liabilities	22,221,717	17,344,917	7,717,750	6,065,083	2,870,025
Total equity	6,323,963	5,295,466	4,142,259	4,033,530	2,617,365
Total liabilities and equity	**61,795,254**	**39,867,560**	**27,859,832**	**18,987,232**	**12,081,824**
Key ratios and figures[1]					
Return on equity	−28.0%	−23.1%	3.9%	15.8%	6.6%
Return on assets	−2.7%	−2.7%	0.4%	2.2%	1.1%
Debt/equity ratio	8,2	6.5	4.9	3.5	3.2
Equity/assets ratio	10.2%	13.3%	14.9%	21.2%	21.7%
Cost/revenue ratio	92.8%	93.9%	83.9%	76.7%	84.9%
Own funds (Total capital)	13,529,578	8,448,158	3,424,327	2,830,504	1,928,585
Capital requirement	3,391,228	2,115,637	1,820,881	1,244,297	820,138
Total capital ratio	31.9%	31.9%	15.0%	18.2%	18.8%
Average number of full-time equivalents	3,129	2,416	1,804	1,456	1,194

[1] See "Definitions and Abbreviations" for definitions of how the ratios are calculated.

Income Statement, Group

Amounts in SEKk	Note	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Interest income calculated according to the effective interest rate method	4	1,673,274	1,488,687	3,264,747	2,794,769
Interest expenses	5	−323,078	−210,870	−601,096	−368,203
Net interest income		**1,350,196**	**1,277,817**	**2,663,651**	**2,426,566**
Commission income	6	4,250,884	2,843,844	7,672,573	5,232,181
Commission expenses		−330,292	−275,744	−574,101	−476,023
Net result from financial transactions		118,610	−45,376	92,140	−76,437
Other operating income		92,846	40,047	145,841	48,381
Total net operating income		**5,482,244**	**3,840,588**	**10,000,104**	**7,154,668**
General administrative expenses		−4,850,196	−3,450,888	−8,680,168	−6,081,229
Depreciation, amortization and impairment of intangible and tangible assets	7	−234,870	−155,877	−418,249	−299,271
Total operating expenses before credit losses		**−5,085,066**	**−3,606,765**	**−9,098,417**	**−6,380,500**
Operating profit before credit losses, net		**397,178**	**233,823**	**901,687**	**774,168**
Credit losses, net	8	−1,336,351	−1,244,710	−2,530,814	−1,862,817
Operating profit		**−939,173**	**−1,010,887**	**−1,629,127**	**−1,088,649**
Income tax		115,122	192,059	253,318	186,293
Net profit for the period		**−824,051**	**−818,828**	**−1,375,809**	**−902,356**
Whereof attributable to:					
Shareholders of Klarna Bank AB (publ)		−831,529	−826,116	−1,390,691	−916,588
Additional Tier 1 capital holders		7,478	7,288	14,882	14,232
Total		**−824,051**	**−818,828**	**−1,375,809**	**−902,356**

Statement of Comprehensive Income, Group

Amounts in SEKk	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Net profit for the period	**−824,051**	**−818,828**	**−1,375,809**	**−902,356**
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations	−115,463	−23,110	−116,496	35,049
Other comprehensive income for the period, net after tax	**−115,463**	**−23,110**	**−116,496**	**35,049**
Total comprehensive income for the period	**−939,514**	**−841,938**	**−1,492,305**	**−867,307**
Whereof attributable to:				
Shareholders of Klarna Bank AB (publ)	−946,992	−849,226	−1,507,187	−881,539
Additional Tier 1 capital holders	7,478	7,288	14,882	14,232
Total	**−939,514**	**−841,938**	**−1,492,305**	**−867,307**

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with central banks		5,014,210	107,076
Treasury bills chargeable at central banks, etc.		5,219,426	2,510,606
Loans to credit institutions	9	2,614,447	1,907,129
Loans to the public	10	41,717,591	29,654,552
Bonds and other interest-bearing securities		1,609,770	1,833,567
Other shares and participations		20,081	20,081
Intangible assets		2,449,280	2,145,846
Tangible assets		1,003,664	892,654
Deferred tax assets		643,879	310,666
Other assets	11	1,140,244	337,071
Prepaid expenses and accrued income		362,662	148,312
Total assets		**61,795,254**	**39,867,560**
Liabilities			
Liabilities to credit institutions		2,414,897	4,939,524
Deposits from the public	12	30,834,677	12,287,653
Debt securities in issue	13	4,182,723	5,582,703
Deferred tax liabilities		75,998	76,411
Other liabilities	14	15,797,011	9,822,329
Accrued expenses and prepaid income		1,423,335	907,475
Provisions		143,530	357,674
Subordinated liabilities		599,120	598,325
Total liabilities		**55,471,291**	**34,572,094**
Equity			
Share capital		52,869	52,752
Other capital contributed		7,305,180	4,805,140
Reserves		109,325	225,821
Additional Tier 1 instruments		250,000	250,000
Retained earnings		−17,602	864,109
Net profit for the year		−1,375,809	−902,356
Total equity		**6,323,963**	**5,295,466**
Total liabilities and equity		**61,795,254**	**39,867,560**

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed	Reserves[4]	Additional Tier 1 instruments	Retained earnings	Net profit	Total equity
Balance as at January 1, 2020	52,752	4,805,140	225,821	250,000	864,109	−902,356	5,295,466
Transfer of previous year's net profit	-	-	-	-	−902,356	902,356	-
Net profit for the year	-	-	-	-	-	*−1,375,809*	***−1,375,809***
Exchange differences, foreign operations	-	-	*−116,496*	-	-	-	***−116,496***
Total comprehensive income for the year	-	-	***−116,496***	-	-	***−1,375,809***	***−1,492,305***
New share issue	117	-	-	-	-	-	117
Shareholders' contribution[1]	-	2,500,040	-	-	-	-	2,500,040
Restricted stock units	-	-	-	-	35,527	-	35,527
Additional Tier 1 instruments[2]	-	-	-	-	−14,882	-	−14,882
Balance as at December 31, 2020	52,869	7,305,180	109,325	250,000	−17,602	−1,375,809	6,323,963

Amounts in SEKk	Share capital	Other capital contributed	Reserves[4]	Additional Tier 1 instruments	Retained earnings	Net profit	Total equity
Balance as at January 1, 2019	52,752	2,805,140	190,772	250,000	738,371	105,224	4,142,259
Opening balance adjustment	-	-	-	-	4	-	4
Transfer of previous year's net profit	-	-	-	-	105,224	−105,224	-
Net profit for the year	-	-	-	-	-	*−902,356*	***−902,356***
Exchange differences, foreign operations	-	-	*35,049*	-	-	-	***35,049***
Total comprehensive income for the year	-	-	***35,049***	-	-	***−902,356***	***−867,307***
Group contribution[3]	-	-	-	-	44,200	-	44,200
Tax effect group contribution	-	-	-	-	−9,458	-	−9,458
Shareholders' contribution[1]	-	2,000,000	-	-	-	-	2,000,000
Additional Tier 1 instruments[2]	-	-	-	-	−14,232	-	−14,232
Balance as at December 31, 2019	52,752	4,805,140	225,821	250,000	864,109	−902,356	5,295,466

[1] Shareholders' contribution from parent company Klarna Holding AB (publ) through conversion of loans between Klarna Bank AB (publ) and Klarna Holding AB (publ).

[2] Amounts in Additional Tier 1 instruments column consist of issued instruments, while amounts in Retained earnings column consist of interest on and cost of issuance of these issued instruments.

[3] Group contribution from parent company Klarna Holding AB (publ), paid in 2020.

[4] The reserves consist of exchange differences from foreign operations.

Equity is in its entirety attributable to the shareholders of Klarna Bank AB (publ) and its additional tier 1 holders.

Cash Flow Statement, Group

Amounts in SEKk	Note	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Operating activities					
Operating profit		−939,173	−1,010,887	−1,629,127	−1,088,649
Taxes paid		−132,995	−105,214	−150,858	−286,084
Adjustments for non-cash items in operating activities					
Depreciation, amortization and impairment	7	234,870	155,877	418,249	299,271
Gain or loss from shares in unlisted companies		-	-	-	915
Provisions excluding credit losses		625	149,585	1,527	222,718
Provision for credit losses		394,894	590,478	631,229	651,791
Share-based payments		35,527	-	35,527	-
Financial items including unrealized exchange rate effects		−56,083	27,724	−55,370	−38,460
Changes in the assets and liabilities of operating activities					
Change in loans to the public		−8,862,770	−7,593,974	−12,466,089	−9,345,613
Change in liabilities to credit institutions		−298,531	4,473,261	−2,697,220	3,521,470
Change in deposits from the public		7,163,188	−2,930,047	18,562,508	−2,294,116
Change in other assets and liabilities		7,358,483	3,035,280	4,934,236	5,926,842
Cash flow from operating activities[1]		**4,898,035**	**−3,207,917**	**7,584,612**	**−2,429,915**
Investing activities					
Investments in intangible assets		−225,990	−142,319	−410,761	−234,059
Investments in tangible assets		−2,859	−130,025	−63,921	−186,263
Sales of fixed assets		3,288	-	3,723	-
Investments in business combinations	20	−128,291	-	−141,943	−979,077
Investments and divestments in other shares and participations		214,057	-	142,106	20,220
Cash flow from investing activities		**−139,795**	**−272,344**	**−470,796**	**−1,379,179**
Financing activities					
New share issue		117	-	117	-
Group contribution received		-	-	44,200	-
Debt securities in issue	13	−607,582	3,579,247	−1,458,368	3,579,247
Lease liabilities		−74,571	−49,592	−137,368	−104,863
Cash flow from financing activities		**−682,036**	**3,529,655**	**−1,551,419**	**3,474,384**
Cash flow for the period		**4,076,204**	**49,394**	**5,562,397**	**−334,710**
Cash and cash equivalents at the beginning of the period		**3,117,984**	**1,579,769**	**1,618,008**	**1,917,407**
Cash flow for the period		4,076,204	49,394	5,562,397	−334,710
Exchange rate diff. in cash and cash equivalents		−279,722	−11,155	−265,939	35,311
Cash and cash equivalents at the end of the period		**6,914,466**	**1,618,008**	**6,914,466**	**1,618,008**
Cash and cash equivalents include the following items					
Cash and balances with central banks		5,014,210	107,076	5,014,210	107,076
Loans to credit institutions[2]		1,900,256	1,510,932	1,900,256	1,510,932
Cash and cash equivalents		**6,914,466**	**1,618,008**	**6,914,466**	**1,618,008**

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

[2] Adjusted for non-cash items such as money in transfer.

Notes with accounting principles.

Note 1 Corporate information

The Parent Company, Klarna Bank AB (publ), Corp. ID 556737-0431, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2020 consist of the Parent Company (including branches in the United Kingdom and Germany) and its subsidiaries, which together make up the Group. The Group's business is described in the Business overview.

The parent company of Klarna Bank AB (publ) is Klarna Holding AB (publ), Corp. ID 556676-2356. Klarna Holding AB (publ) has its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden.

Note 2 Accounting and valuation principles

Basis for the preparation of the reports

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The financial statements for both the Group and the Parent Company have also been prepared in accordance 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 recommendations (RFR 1 Supplementary Accounting Rules for Groups and RFR 2 Accounting for Legal Entities).

The accounting principles and calculation methods applied in this report are identical to those applied in the Annual Report for 2019 except for the changes stated below.

Changed accounting principles

IASB has amended IFRS 3 Business Combinations to distinguish further if a purchase constitutes a business combination or the purchase of a group of assets. This amendment has not had any significant impact on the group's financial statements.

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:

1) IFRS 17 Insurance contracts
2) Amendments to IAS 16 Property, Plant and Equipment for proceeds before intended use
3) Amendments to IAS 37 for the Costs of fulfilling a contract related to onerous contracts
4) Interest rate benchmark reform phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
5) Amendments to references to the conceptual framework in IFRS standards
6) Amendments to IAS 1 in the classification of liabilities as current or non-current

None of the changes in IFRS or IFRIC interpretations that have not yet come into effect are expected to have a significant impact on the Group.

Changed presentation of Commission expenses for the Parent Company

The presentation of income and expenses has changed in the income statement for the Parent Company. In 2020, the Parent Company presents certain fees, which were previously reported as general administrative expenses within commission expenses, in order to provide more relevant information about the effects of transaction related expenses. The change has been applied for comparable figures to better illustrate the comparative trends between periods. The outcome is that the comparable figures for commission expenses have increased by SEK 545m in 2019 to SEK 999m and general administrative expenses have decreased by the same amount to SEK 5,017m.

The presentation is consistent with the Swedish Financial Supervisory Authority regulations (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559).

Note 3 Operating segments and income by geographical area

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 two main operating segments, based on regions; Nordics (Sweden, Norway, Finland and Denmark) and DACH (Germany, Austria and Switzerland). The remainder of operating segments falls below the quantitative threshold in IFRS 8 and are included in "Other" operating segments. Items not fully allocated to any of the operating segments are shown separately as reconciling items.

Klarna's main geographical markets are Sweden and Germany. The remainder of the geographical markets falls below the quantitative threshold in IFRS 8 and are included in "Other" geographical markets. Revenues are distributed to geographical areas based on either the location of the end-consumer or the location of the retailer's operations.

Jul - Dec 2020				
Operating segments	**Nordics**	**DACH**	**Other[1]**	**Total**
Revenue	2,216,220	2,227,059	1,566,549	**6,009,828**
Gross profit	1,649,169	1,544,542	225,030	**3,418,741**
Geographical breakdown	**Sweden**	**Germany**	**Other[2]**	**Total**
Revenue	1,388,951	1,965,500	2,655,377	**6,009,828**
Non-current assets	1,327,845	1,981,799	143,300	**3,452,944**

Jul - Dec 2019[3]				
Operating segments	**Nordics**	**DACH**	**Other[1]**	**Total**
Revenue	2,036,793	1,585,624	736,655	**4,359,072**
Gross profit	1,550,759	1,071,514	−227,917	**2,394,356**
Geographical breakdown	**Sweden**	**Germany**	**Other[2]**	**Total**
Revenue	1,243,285	1,409,451	1,706,336	**4,359,072**
Non-current assets	984,006	2,023,210	31,284	**3,038,500**

Jan - Dec 2020				
Operating segments	**Nordics**	**DACH**	**Other[1]**	**Total**
Revenue	4,319,442	4,044,273	2,666,508	**11,030,223**
Gross profit	3,192,489	2,848,676	311,849	**6,353,014**
Geographical breakdown	**Sweden**	**Germany**	**Other[2]**	**Total**
Revenue	2,695,804	3,555,613	4,778,806	**11,030,223**
Non-current assets	1,327,845	1,981,799	143,300	**3,452,944**

Jan - Dec 2019[3]				
Operating segments	**Nordics**	**DACH**	**Other[1]**	**Total**
Revenue	3,939,278	2,930,172	1,190,564	**8,060,014**
Gross profit	2,962,691	2,032,184	−138,774	**4,856,101**
Geographical breakdown	**Sweden**	**Germany**	**Other[2]**	**Total**
Revenue	2,390,774	2,606,568	3,062,672	**8,060,014**
Non-current assets	984,006	2,023,210	31,284	**3,038,500**

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

[2] "Other" mainly includes the countries Austria, Belgium, Denmark, Finland, the Netherlands, Norway, Switzerland, the United Kingdom and the United States.

[3] Revenue and gross profit figures for 2019 have been updated due to changes in the internal financial reporting.

Certain revenues and costs are not allocated to the segments as they are managed on an overall group basis. The reconciliation between reportable segments to the Group's income statement is as follows:

Reconciliation between total operating segments and income statement	Jul - Dec 2020	Jul - Dec 2019[1]	Jan - Dec 2020	Jan - Dec 2019[1]
Revenue				
Revenue - total operating segments	6,009,828	4,359,072	11,030,223	8,060,014
Interest income from central activities	40,307	13,506	86,079	15,317
Interest expenses	−323,078	−210,870	−601,096	−368,203
Other commissions	−363,423	−275,744	−607,242	−476,023
Net result from financial transactions	118,610	−45,376	92,140	−76,437
Total net operating income	**5,482,244**	**3,840,588**	**10,000,104**	**7,154,668**

Reconciliation between total operating segments and income statement	Jul - Dec 2020	Jul - Dec 2019[1]	Jan - Dec 2020	Jan - Dec 2019[1]
Gross profit				
Gross profit - total operating segments	3,418,741	2,394,356	6,353,014	4,856,101
Other general administrative expenses	−3,838,938	−2,879,595	−6,932,726	−5,083,715
Depreciation, amortization and impairment of intangible and tangible assets	−234,870	−155,877	−418,249	−299,271
Other interest expenses	−67,085	−43,954	−112,630	−54,454
Other commissions	−363,423	−275,744	−607,242	−476,023
Other result from financial transactions	192,069	−6,293	204,145	−6,329
Other credit losses	−45,667	−43,780	−115,439	−24,958
Operating profit	**−939,173**	**−1,010,887**	**−1,629,127**	**−1,088,649**

[1] Figures for 2019 have been updated due to changes in the internal financial reporting.

Note 4 Interest income calculated according to the effective interest rate method

	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Loans to credit institutions	1,261	1,090	3,689	1,728
Loans to the public	1,632,966	1,475,182	3,178,668	2,779,450
Other interest income	39,047	12,415	82,390	13,591
Total	**1,673,274**	**1,488,687**	**3,264,747**	**2,794,769**

Note 5 Interest expenses

	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Interest-bearing securities and chargeable treasury bills etc.	−56,170	−38,476	−94,142	−43,060
Liabilities to credit institutions	−25,363	−24,067	−46,906	−44,183
Deposits from the public	−149,807	−83,002	−263,496	−169,785
Debt securities in issue	−23,416	−18,143	−58,072	−31,801
Subordinated liabilities	−12,590	−12,382	−25,761	−24,514
Group companies	−57,150	−32,891	−95,881	−38,793
Other interest expenses	1,418	−1,909	−16,838	−16,067
Total	**−323,078**	**−210,870**	**−601,096**	**−368,203**

All interest expenses are calculated using the effective interest rate method.

Note 6 Commission income

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

Jul - Dec 2020	Nordics	DACH	Other[1]	Total
Commission income	1,148,864	1,781,995	1,320,025	**4,250,884**

Jul - Dec 2019	Nordics	DACH	Other[1]	Total
Commission income	995,193	1,263,751	584,900	**2,843,844**

Jan - Dec 2020	Nordics	DACH	Other[1]	Total
Commission income	2,210,677	3,224,043	2,237,853	**7,672,573**

Jan - Dec 2019	Nordics	DACH	Other[1]	Total
Commission income	1,923,610	2,364,231	944,340	**5,232,181**

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

Commission income split by product category	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Retailer	3,353,150	2,024,974	5,855,032	3,612,383
Consumer	897,734	818,870	1,817,541	1,619,798
Total	**4,250,884**	**2,843,844**	**7,672,573**	**5,232,181**

All commission income arises from financial instruments measured at amortized cost.

Note 7 Depreciation, amortization and impairment of intangible and tangible assets

	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Amortization and depreciation				
Intangible assets	−107,780	−80,613	−194,294	−151,801
Tangible assets[1]	−109,727	−75,264	−206,592	−147,319
Total	**−217,507**	**−155,877**	**−400,886**	**−299,120**
Impairment				
Intangible assets	−17,363	-	−17,363	−151
Total	**−17,363**	**-**	**−17,363**	**−151**
Total depreciation, amortization and impairment of intangible and tangible assets	**−234,870**	**−155,877**	**−418,249**	**−299,271**

[1] Depreciation of leased assets is included in tangible assets. During 2020, the depreciation of leased assets amounted to SEK 147m (117) in the Group.

Note 8 Credit losses, net

Loan losses divided by class	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Loans to credit institutions				
Increase in provisions	−2,111	−619	−2,180	−672
Reversal of previous provisions	1,334	579	1,432	613
Total	**−777**	**−40**	**−748**	**−59**
Loans to the public				
Realized loan losses	−1,322,363	−1,003,928	−2,690,074	−1,858,103
Allowances to cover realized loan losses	540,184	332,086	1,510,473	765,695
Recoveries on previous realized loan losses	361,559	335,660	771,143	647,077
Increase in provisions	−3,780,508	−2,786,324	−6,282,384	−4,193,284
Reversal of previous provisions	2,858,913	1,896,429	4,200,342	2,759,393
Total	**−1,342,215**	**−1,226,077**	**−2,490,500**	**−1,879,222**
Financial guarantees and commitments				
Increase in provisions	−58,749	−61,793	−106,906	−104,630
Reversal of previous provisions	65,390	43,200	67,340	121,094
Total	**6,641**	**−18,593**	**−39,566**	**16,464**
Total credit losses, net	**−1,336,351**	**−1,244,710**	**−2,530,814**	**−1,862,817**

Note 9 Loans to credit institutions

	31 Dec 2020	31 Dec 2019
Loans to credit institutions	2,614,447	1,907,129
By currency		
- in SEK	532,018	174,927
- in EUR	1,136,350	1,001,128
- in USD	281,553	286,401
- in AUD	279,836	97,454
- in GBP	59,379	80,399
- in other currencies	325,311	266,820
Total	**2,614,447**	**1,907,129**

All loans to credit institutions are payable on demand. For the fair value amounts, see note 16.

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 843k (97) for the Group and is allocated to impairment stage 1. The Group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.

Note 10 Loans to the public

	31 Dec 2020	31 Dec 2019
Loans to the public	43,733,235	31,300,571
Allowance for credit losses	−2,015,644	−1,646,019
Total	**41,717,591**	**29,654,552**

For the fair value amounts, see note 16.

Note 11 Other assets

	31 Dec 2020	31 Dec 2019
Current tax assets	189,543	138,973
VAT receivables	21,632	38,703
Derivatives	341,203	84,327
Cost to obtain a contract	522,698	50,589
Other receivables	65,168	24,479
Total	**1,140,244**	**337,071**

For the fair value amounts, see note 16.

Note 12 Deposits from the public

	31 Dec 2020	31 Dec 2019
Private individuals	30,240,723	11,420,928
Companies	593,954	866,725
Total	**30,834,677**	**12,287,653**
By currency		
- in SEK	6,322,367	2,119,141
- in EUR	24,140,360	9,968,505
- in other currencies	371,950	200,007
Total	**30,834,677**	**12,287,653**

For the fair value amounts, see note 16.

Note 13 Debt securities in issue

	31 Dec 2020	31 Dec 2019
Senior unsecured bonds	2,301,006	3,450,758
Commercial papers	1,696,206	2,083,509
Other bonds	185,511	48,436
Total	**4,182,723**	**5,582,703**

In January 2020, Klarna Bank AB (publ) issued a second tranche of an existing loan of SEK 400m under the Medium Term Notes program. The notes have a final maturity in June 2021 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm in December 2019.

In February 2020, Klarna Bank AB (publ) issued a second tranche of an existing loan of SEK 300m under the Medium Term Notes program. The notes have a final maturity in August 2022 and pay interest on a quarterly basis. The loan was listed on Nasdaq Stockholm in November 2019.

For the fair value amounts, see note 16.

Note 14 Other liabilities

	31 Dec 2020	31 Dec 2019
Accounts payable	237,993	152,534
Personnel related taxes	106,057	62,129
Liabilities to group companies	7,987,182	4,340,522
Current tax liabilities	77,432	69,142
Liabilities to retailers	5,650,051	4,325,140
Derivatives	418,336	59,869
Lease liabilities	763,141	641,884
Other liabilities	556,819	171,109
Total	**15,797,011**	**9,822,329**

Klarna Bank AB (publ) has received a line of credit from its parent company Klarna Holding AB (publ). The credit liability amounted to SEK 7,842,976k (4,126,636) as of December 31, 2020 and is included in Liabilities to group companies. The line of credit is ranked pari passu with all other unsecured indebtedness.

For the fair value amounts, see note 16.

Note 15 Pledged assets and contingent liabilities

	31 Dec 2020	31 Dec 2019
Pledged assets		
Assets pledged for own liabilities		
Pledged loans and receivables	9,248,248	8,358,790
Pledged treasury bills chargeable at central banks, etc., and pledged bonds and other interest-bearing securities	1,714,570	2,313,711
Other pledged assets	25,812	9,859
Total	**10,988,630**	**10,682,360**
Contingent liabilities and commitments		
Contingent liabilities		
Guarantees	40,327	483,315
Commitments	16,396,546	10,136,918
Total	**16,436,873**	**10,620,233**

Parts of the Swedish receivables are continuously pledged as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 0k (2,157,060) as at December 31, 2020.

Treasury bills chargeable at central banks, etc., and bonds and other interest-bearing securities pledged for own liabilities contain securities pledged as collateral in repurchase agreements. Associated liabilities amounted to SEK 1,714,572k (2,298,059) as at December 31, 2020.

Commitments contain undrawn part of irrevocable consumer credit line amounted to SEK 10,780,554k (6,383,300) and commitment to refund consumers in case of returns to a defaulted retailer amounted to SEK 5,615,992k (3,753,618) as at December 31, 2020.

Note 16 Financial assets and liabilities at fair value

	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	5,014,210	5,014,210	-	107,076	107,076	-
Treasury bills chargeable at central banks, etc.	5,231,819	5,219,426	12,393	2,510,610	2,510,606	4
Loans to credit institutions	2,614,447	2,614,447	-	1,907,129	1,907,129	-
Loans to the public	41,717,591	41,717,591	-	29,654,552	29,654,552	-
Bonds and other interest-bearing securities	1,617,383	1,609,770	7,613	1,833,592	1,833,567	25
Other shares and participations	20,081	20,081	-	20,081	20,081	-
Other assets	65,169	65,169	-	24,479	24,479	-
Other assets (Currency forwards)	341,203	341,203	-	84,327	84,327	-
Prepaid expenses and accrued income	157,882	157,882	-	7,891	7,891	-
Total	**56,779,785**	**56,759,779**	**20,006**	**36,149,737**	**36,149,708**	**29**

	31 Dec 2020			31 Dec 2019		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	2,413,280	2,414,897	−1,617	4,939,524	4,939,524	-
Deposits from the public	30,931,098	30,834,677	96,421	12,412,771	12,287,653	125,118
Debt securities in issue	4,186,765	4,182,723	4,042	5,600,550	5,582,703	17,847
Other liabilities	15,091,523	15,091,523	-	9,613,734	9,613,734	-
Other liabilities (Currency forwards)	418,336	418,336	-	59,869	59,869	-
Accrued expenses and prepaid income	1,359,640	1,359,640	-	833,664	833,664	-
Subordinated liabilities	605,457	599,120	6,337	607,048	598,325	8,723
Total	**55,006,099**	**54,900,916**	**105,183**	**34,067,160**	**33,915,472**	**151,688**

Treasury bills chargeable at central banks, etc., bonds and other interest-bearing securities and repurchase agreements within liabilities to credit institutions are valued in terms of the active market prices.

Carrying amount 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. Deposits from the public are grouped into maturity buckets and thereafter the net present value is calculated based on the remaining maturity and the corresponding interest rate.

Fair value on liabilities in terms of issued debt securities and subordinated liabilities have been determined with regards to observable market prices from external markets when possible. If no observable market prices are available, the fair value is calculated based on commonly accepted valuation techniques.

Note 17 Classification of financial assets and liabilities into valuation categories

31 Dec 2020	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	5,014,210	-	5,014,210
Treasury bills chargeable at central banks, etc.	-	5,219,426	-	5,219,426
Loans to credit institutions	-	2,614,447	-	2,614,447
Loans to the public	-	41,717,591	-	41,717,591
Bonds and other interest-bearing securities	-	1,609,770	-	1,609,770
Other shares and participations	20,081	-	-	20,081
Intangible assets	-	-	2,449,280	2,449,280
Tangible assets	-	-	1,003,664	1,003,664
Deferred tax assets	-	-	643,879	643,879
Other assets	341,203	65,169	733,872	1,140,244
Prepaid expenses and accrued income	-	157,882	204,780	362,662
Total	361,284	56,398,495	5,035,475	61,795,254

31 Dec 2020	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	2,414,897	-	2,414,897
Deposits from the public	-	30,834,677	-	30,834,677
Debt securities in issue	185,511	3,997,212	-	4,182,723
Deferred tax liabilities	-	-	75,998	75,998
Other liabilities	418,336	15,091,523	287,152	15,797,011
Accrued expenses and prepaid income	-	1,359,640	63,695	1,423,335
Provisions	-	-	143,530	143,530
Subordinated liabilities	-	599,120	-	599,120
Total	603,847	54,297,069	570,375	55,471,291

31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	107,076	-	**107,076**
Treasury bills chargeable at central banks, etc.	-	2,510,606	-	**2,510,606**
Loans to credit institutions	-	1,907,129	-	**1,907,129**
Loans to the public	-	29,654,552	-	**29,654,552**
Bonds and other interest-bearing securities	-	1,833,567	-	**1,833,567**
Other shares and participations	20,081	-	-	**20,081**
Intangible assets	-	-	2,145,846	**2,145,846**
Tangible assets	-	-	892,654	**892,654**
Deferred tax assets	-	-	310,666	**310,666**
Other assets	84,327	24,479	228,265	**337,071**
Prepaid expenses and accrued income	-	7,891	140,421	**148,312**
Total	**104,408**	**36,045,300**	**3,717,852**	**39,867,560**

31 Dec 2019	Mandatory at fair value through profit or loss	Amortized cost	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions	-	4,939,524	-	**4,939,524**
Deposits from the public	-	12,287,653	-	**12,287,653**
Debt securities in issue	-	5,582,703	-	**5,582,703**
Deferred tax liabilities	-	-	76,411	**76,411**
Other liabilities	59,869	9,613,734	148,726	**9,822,329**
Accrued expenses and prepaid income	-	833,664	73,811	**907,475**
Provisions	-	-	357,674	**357,674**
Subordinated liabilities	-	598,325	-	**598,325**
Total	**59,869**	**33,855,603**	**656,622**	**34,572,094**

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 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.

Level 2

Level 2 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 and for certain items in debt securities in issue.

The following table shows the financial assets and liabilities measured at fair value, divided into the three valuation levels. No transfers between levels have been made during 2019 and 2020.

31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	341,203	-	341,203
Total	-	341,203	20,081	361,284
Financial liabilities				
Debt securities in issue	-	-	185,511	185,511
Other liabilities (Currency forwards)	-	418,336	-	418,336
Total	-	418,336	185,511	603,847

31 Dec 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	20,081	20,081
Other assets (Currency forwards)	-	84,327	-	84,327
Total	-	84,327	20,081	104,408
Financial liabilities				
Other liabilities (Currency forwards)	-	59,869	-	59,869
Total	-	59,869	-	59,869

Movements in Level 3

The following tables show a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value.

	Financial assets	Financial liabilities
	Other shares and participations	Debt securities in issue[2]
Balance as at January 1, 2020	20,081	-
Gain/loss in income statement[1]	-	−1,749
of which: unrealized gain/loss	-	−1,749
Issuances	-	188,057
Impact of foreign exchange movements	-	−797
Balance as at December 31, 2020	20,081	185,511

	Financial assets	Financial liabilities
	Other shares and participations	Debt securities in issue
Balance as at January 1, 2019	41,217	-
Gain/loss in income statement[1]	−915	-
of which: unrealized gain/loss	-	-
Sales	−20,221	-
Balance as at December 31, 2019	20,081	-

[1] Fair value gains and losses recognized in the income statement are included in Net result from financial transactions.

[2] The value of debt securities in issue has been established using evaluation models.

Note 18 Information on related parties

The following are defined as related parties: all companies within the Klarna Holding AB (publ) Group, shareholders in Klarna Holding AB (publ) with significant influence, board members of Klarna Holding AB (publ) and Klarna Bank AB (publ), key management personnel, as well as close family members of and companies significantly influenced by such board members or key management personnel.

During the year, there have been normal business transactions between companies in the Group and agreed remuneration has been paid to the CEO, Board of directors and other management personnel.

Note 19 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 (CRD) 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 as well as the Capital adequacy reports are published on Klarna's homepage **www.klarna.com**

Common Equity Tier 1 capital

During 2020, SEK 5.6bn of Common Equity Tier 1 was added to the own funds of the consolidated situation of Klarna Holding AB (publ) through a capital raise exercise in September.

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 (publ) 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 securities were 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

In accordance with the capital adequacy regulations, the consolidated situation is made up of Klarna Holding AB (publ) (Klarna Bank AB (publ)'s parent company) and 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 standardized method for calculating the minimum capital requirements for credit- as well as market risk and the alternative standardized approach for operational risk regarding Klarna Bank AB (publ) and its consolidated situation. The approval for calculating minimum capital requirement for operational risk using the alternative standardized approach was granted by the Finansinspektionen in December 2019. 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

The objective of the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process (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 with regards to different 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 internally 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, as well as the combined buffer requirements. The internally assessed required capital as of year-end 2020 amounts to SEK 4,883m (3,438) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I, including combined buffer requirements, 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 Capital adequacy 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. 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 IFRS 9 model, which prolonged the period of application.

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 December 31, 2020 an amount of SEK 207m Additional Tier 1 capital and SEK 552m Tier 2 capital instruments issued by Klarna Bank AB (publ) were included in the Own funds of Klarna Holding Group.

Capital adequacy information	Consolidated situation 31 Dec 2020	31 Dec 2019
Own funds, total risk exposure amount and total leverage ratio exposure		
Common Equity Tier 1 capital	12,514,158	7,439,312
Tier 1 capital	12,978,002	7,913,117
Own funds	13,529,578	8,448,158
Total risk exposure amount	42,390,354	26,445,453
Total leverage ratio exposure	62,564,979	38,528,570
Capital adequacy analysis		
Common Equity Tier 1 capital ratio	29.5%	28.1%
Tier 1 capital ratio	30.6%	29.9%
Total capital ratio	31.9%	31.9%
Leverage ratio	20.7%	20.5%
Combined buffer requirement incl. the requirements of 575/2013 Art, 92(1)(a)	7.0%	8.1%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.1%	1.1%
Common Equity Tier 1 capital available to meet buffers	24.8%	20.0%
Exposure amounts for credit risk according to the standardized approach		
Credit risk including counterparty credit risk	60,876,486	37,738,242
of which: central governments or central banks	6,039,522	510,272
of which: regional governments or local authorities	2,238,974	2,265,154
of which: public sector entities	26,052	-
of which: multilateral development banks	2,140,206	234,782
of which: institutions	2,999,050	2,021,416
of which: corporates	4,101,853	1,593,025
of which: retail	38,419,101	27,617,719
of which: exposures in default	529,264	434,437
of which: covered bonds	1,609,770	1,633,589
of which: equity	20,081	20,081
of which: other items	2,752,613	1,407,767
Total exposure amount	**60,876,486**	**37,738,242**
Risk exposure amounts according to the standardized approach		
Credit risk including counterparty credit risk	38,019,317	25,212,408
of which: institutions	599,810	404,283
of which: corporates	4,014,407	1,516,407
of which: retail	28,814,326	20,713,290
of which: exposures in default	634,380	491,110
of which: covered bonds	160,977	163,359
of which: equity	50,203	50,203
of which: other items	3,745,214	1,873,756
Market risk	2,114,861	272,257
of which: foreign exchange risk	2,114,861	272,257
Operational risk	2,252,092	959,111
Credit valuation adjustments	4,084	1,677
Total risk exposure amount	**42,390,354**	**26,445,453**

	Consolidated situation	
	31 Dec 2020	31 Dec 2019
Total minimum capital requirements		
Credit risk including counterparty credit risk	3,041,545	2,016,993
of which: institutions	47,985	32,343
of which: corporates	321,153	121,313
of which: retail	2,305,146	1,657,063
of which: exposures in default	50,750	39,289
of which: covered bonds	12,878	13,069
of which: equity	4,016	4,016
of which: other items	299,617	149,900
Market risk	169,189	21,781
of which: foreign exchange risk	169,189	21,781
Operational risk	180,167	76,729
Credit valuation adjustments	327	134
Total capital requirement	**3,391,228**	**2,115,637**
Own funds disclosure		
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	14,892,742	8,840,376
Retained earnings	−11,226	887,596
Accumulated other comprehensive income (and other reserves)	109,166	225,268
Common Equity Tier 1 capital before regulatory adjustments	**14,990,682**	**9,953,240**
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustments	−780	−164
Intangible assets (net of related tax liability)	-1,915,967	−2,069,884
Losses for the current financial year	-1,266,487	−865,394
IFRS 9 transitional adjustments to CET1 Capital	706,710	421,514
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	**-2,476,524**	**−2,513,928**
Common Equity Tier 1 (CET1) capital	**12,514,158**	**7,439,312**
Additional Tier 1 (AT1) capital instruments		
Capital instruments and the related share premium accounts	256,372	256,372
of which: classified as equity under applicable accounting standards	256,372	256,372
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	207,472	217,433
Total Additional Tier 1 (AT1) capital instruments	**463,844**	**473,805**
Tier 1 capital	**12,978,002**	**7,913,117**
Tier 2 (T2) capital instruments		
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third party	551,576	535,041
Total Tier 2 (T2) capital instruments	**551,576**	**535,041**
Own funds	**13,529,578**	**8,448,158**

Note 20 Business combinations

Search Engine Marketing Sweden AB, 2020

On December 4, 2020, Klarna Bank AB (publ) acquired Search Engine Marketing Sweden AB ("SEMSAB"), a company offering Google Comparison Shopping Services, product feed management and shopping ad bid management under the brand names "Shoptail" and "Semtail". The service will be integrated as part of Klarna's service offering.

The total purchase consideration was SEK 136m. The acquisition was accounted for under the acquisition method. Of the total purchase consideration, SEK 111m has been recorded to goodwill, SEK 20m to acquired intangible assets, SEK 4m million to deferred tax liabilities and SEK 9m to other net assets. The purchase price allocation is considered preliminary at the end of the period.

The goodwill represents synergies that are expected to arise as a result of the operations acquired.

Close Brothers Retail Finance, 2019

On September 13, 2018, 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 recognized 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 December 31, 2019, Close Brothers Retail Finance's loan portfolio contributed by SEK 191,110k 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 organization.

Note 21 Significant events after the end of the reporting period

On February 5, 2021, Klarna Bank AB (publ) issued a senior unsecured bond in the principal amount of SEK 1bn. No other significant events have occurred after the closing date.

Parent company financials.

Income Statement, Parent Company

Amounts in SEKk	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Interest income calculated according to the effective interest rate method	1,689,136	1,484,873	3,284,326	2,777,230
Interest expenses	−326,867	−208,781	−603,751	−364,173
Net interest income	**1,362,269**	**1,276,092**	**2,680,575**	**2,413,057**
Dividend received	-	-	-	126,609
Commission income	3,213,897	2,217,533	5,883,500	4,098,667
Commission expenses[1]	−733,954	−577,732	−1,309,092	−998,829
Net result from financial transactions	42,052	−54,947	20,161	−68,988
Other operating income	902,758	393,186	1,146,215	649,802
Total net operating income	**4,787,022**	**3,254,132**	**8,421,359**	**6,220,318**
General administrative expenses[1]	−3,877,501	−2,850,013	−6,703,922	−5,016,554
Depreciation, amortization and impairment of intangible and tangible assets	−177,476	−116,675	−330,021	−217,848
Other operating costs	−382,400	−410,262	−742,987	−582,320
Total operating expenses before credit losses	**−4,437,377**	**−3,376,950**	**−7,776,930**	**−5,816,722**
Operating profit before credit losses, net	**349,645**	**−122,818**	**644,429**	**403,596**
Credit losses, net	−889,489	−918,178	−2,004,786	−1,480,128
Impairment of financial assets	−13,836	-	−13,836	-
Operating profit	**−553,680**	**−1,040,996**	**−1,374,193**	**−1,076,532**
Appropriations	-	151,100	-	151,100
Income tax	20,313	168,399	200,659	187,313
Net profit for the period	**−533,367**	**−721,497**	**−1,173,534**	**−738,119**

[1] The presentation of Commission expenses and General administrative expenses has been changed for 2020 and restated for 2019. For more information, see note 2.

Statement of Comprehensive Income, Parent Company

Amounts in SEKk	Jul - Dec 2020	Jul - Dec 2019	Jan - Dec 2020	Jan - Dec 2019
Net profit for the period	**−533,367**	**−721,497**	**−1,173,534**	**−738,119**
Items that may be reclassified subsequently to the income statement:				
Exchange differences, foreign operations	−1,510	916	−4,098	383
Other comprehensive income for the period, net after tax	**−1,510**	**916**	**−4,098**	**383**
Total comprehensive income for the period	**−534,877**	**−720,581**	**−1,177,632**	**−737,736**

Balance Sheet, Parent Company

Amounts in SEKk	31 Dec 2020	31 Dec 2019
Assets		
Cash and balances with central banks	5,014,203	107,070
Treasury bills chargeable at central banks, etc.	5,219,426	2,510,606
Loans to credit institutions	1,722,857	1,192,327
Loans to the public	38,025,289	28,536,048
Bonds and other interest-bearing securities	1,609,770	1,833,567
Shares and participations in group companies	3,351,308	1,305,489
Other shares and participations	20,081	20,081
Intangible assets	771,505	524,607
Tangible assets	804,880	448,805
Deferred tax assets	486,327	233,832
Other assets	5,017,331	1,747,020
Prepaid expenses and accrued income	226,943	177,511
Total assets	**62,269,920**	**38,636,963**
Liabilities		
Liabilities to credit institutions	2,386,007	4,939,524
Deposits from the public	30,681,663	12,252,416
Debt securities in issue	3,997,212	5,534,267
Deferred tax liabilities	119	-
Other liabilities	16,701,696	8,946,400
Accrued expenses and prepaid income	1,305,763	990,174
Provisions	141,514	338,757
Subordinated liabilities	599,120	598,325
Total liabilities	**55,813,094**	**33,599,863**
Untaxed reserves	**2,213**	**2,213**
Equity		
Share capital	52,869	52,752
Reserve for development costs	650,264	390,209
Other reserves	−3,715	383
Additional Tier 1 instruments	250,000	250,000
Retained earnings	6,678,729	5,079,662
Net profit for the year	−1,173,534	−738,119
Total equity	**6,454,613**	**5,034,887**
Total liabilities and equity	**62,269,920**	**38,636,963**

Definitions and Abbreviations

App installs
Number of installments of the Klarna App. Information from App Store Connect and Google Play Console.

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.

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.

Consumer
An individual, company or governmental entity using our services.

Cost/revenue ratio*
Total expenses before credit losses divided by total net operating income.

Debt/equity ratio
Average liabilities adjusted for untaxed reserves in relation to average equity adjusted for untaxed reserves. The calculation of average liabilities and average equity is based on opening and closing balances for the reporting period.

Equity/assets ratio
Equity adjusted for untaxed reserves as a percentage of total assets at the end of the reporting period.

Financing
Klarna's account product, formerly known as Slice it.

Klarna Card
Volume: Total monetary value of sold products and services with Klarna Card.

Klarna In-store
Klarna's product for physical stores allows retailers to offer our alternative payment methods wherever they get in direct contact with their customers.

Monthly active app users
Number of unique authenticated app (web + native) users per calendar month. Information from internal estimates.

Own funds (Total capital)
The sum of Tier 1 capital and Tier 2 capital.

Pay now
Klarna's product for immediate settlement.

POCI
Purchased or originated credit-impaired assets.

Retailers
Klarna's e-commerce customers, formerly known as merchants.

Return on assets*
Net profit for the last 12 months as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the last 12 months.

Return on equity*
Operating profit for the last 12 months as a percentage of average equity adjusted for untaxed reserves. The calculation of average equity is based on opening and closing balances for the last 12 months.

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 may not be directly comparable with similar key measures presented by other companies.

Board of Directors' affirmation

The Board of Directors certifies that this annual financial statement release provides a fair overview of the Parent Company's and the Group's operations, their financial position and result, and describes material risks and uncertainties that the Parent Company and other companies in the Group are facing.

Stockholm, February 25, 2021

Michael Moritz
Chairman of the Board

Mikael Walther
Board member

Lise Kaae
Board member

Sarah Smith
Board member

Andrew Young
Board member

Omid Kordestani
Board member

Sebastian Siemiatkowski
CEO and Board member

This report has not been subject to review by the Company's auditors.

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 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, on February 25, 2021 at 08:00 a.m. CET.

Future calendar events

The annual report will become public on the Company's website during March 24-30, 2021.

Klarna.