Annual Report 2018

Klarna.

Klarna Holding AB
(Corp. ID 556676-2356)

Table of Contents Page

The statutory Annual Report comprises of pages 2-71.

To our Shareholders

Fellow shareholders,

A question we are often asked is 'what is Klarna'? Are we a fintech, or a bank, maybe a technology company, an e-commerce facilitator or a payment provider? We are in fact in part all of the above and more but we are not so concerned on fitting into single neat labels, we are focused on what we are actually solving for. When Klarna was founded, the challenge was making technology work in an online retail environment and our mission was to enable merchants to sell and consumers to buy online in an easy, safe and smooth way. We then moved into an era where we had to focus more on reducing unnecessary friction in the shopping journey, so the consumer didn't abandon their purchase in frustration. We believe we are now in the 'experience era'. The technology functions, the unnecessary friction is continually being eliminated but the consumer now expects a highly personalised and intuitive experience that not only meets their individual needs before and at the checkout but also in post-purchase. That means offering a range of services that helps people seamlessly shop, pay, finance, manage and keep track of their purchases in a simple, convenient and secure way. We want to give consumers control, save them time and where possible create a joyful experience stretching far beyond the actual transaction.

This focus on the user experience is relentless and this principle should guide absolutely everything we do at Klarna. By doing so we also importantly drive loyalty, and ultimately sales for over 100,000 merchants and partners operating in a highly competitive environment. The value which our products bring can be seen in the increased conversion rates, order value, number of users and overall preference for our merchants. This value is also reflected in the continued year-on-year growth in volumes, transactions, active users and merchants base across all markets and the increasing strength of our position, particularly in the DACH region (Germany, Austria and Switzerland), which is now our largest market and the success of Pay later in the UK, to the point it has become a verb to 'klarna it'.

We set out big ambitions for 2018 and the results of enormous efforts to make them a reality are evident. The new Klarna app with a host of features is now live across multiple markets and engagement has been really positive but this is just the beginning, the app will continue to evolve into something we believe will truly be empowering for consumers in managing their daily financial lives. We launched a new product called Slice it in 3/Slice it in 4 in the UK and the US, which allows consumers to spread their cost over 3 or 4 installments interest free, giving desired flexibility and purchasing power including on a debit card. This offer has already resonated strongly and will be available in other markets soon. Equally, our off-line presence has steadily developed with instore solutions now live in thousands of stores and the successful launch of the Klarna card, which is utilising the capabilities from our banking license. We have also dedicated more resources to meeting the particular needs of SMEs, this includes new automated onboarding and a financing program that enables simplified access to funds. Finally, being able to share the news on our partnership with H&M across multiple markets has been a particular highlight, we are now working together to soon offer a seamless and engaging shopping experience that will delight consumers across touchpoints.

While Klarna is constantly evolving, we cannot be complacent. Every day brings new challenges and new opportunities. The context we are operating in is developing so rapidly, we need to constantly look ahead. Therefore, we made a strategic decision at the beginning of the year to significantly increase important investments in people, systems and products to further strengthen our capabilities and drive efficiencies. These are investments in our future and our core focus is on growth. While revenues continue to increase steadily, this decision has resulted in a lower net profitability for this year, but we know this was the right decision as we are building Klarna for the long term and an acceleration from the investments is already starting to be realised and this will continue.

Consumers and merchants will not settle for average. And neither do we. Every day, we will work to build world class products which offer the very best service and consumer experience. I want to take this opportunity to thank my fellow employees, our shareholders, merchants and users for their support in 2018 and I am very excited with what 2019 will bring, soon to be revealed.

Together we will create wonders.

Sebastian Siemiatkowski, CEO and Co-founder

Report of the Board of Directors

The Board and the CEO of Klarna Holding AB hereby submit the report for the period January 1 – December 31, 2018. The annual accounts have been prepared in thousands of Swedish kronor unless otherwise stated.

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

Our purpose at Klarna is to make the modern purchase experience smooother and this is done by facilitating the relationship between consumers and merchants, creating a flexible buying experience for consumers and making selling simpler and safer for merchants. Klarna's business is primarily comprised of payment solutions and consumer credit products designed specifically for e-commerce. Today, Klarna's services have expanded beyond traditional e-commerce, for example, by managing payments for public transport, media and increasingly in physical stores. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

Klarna's core mission is to give consumers control, to save them time and to create a joyful experience that stretches beyond the actual transaction. Klarna offers consumers a range of payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice (Pay later), sales financing (Slice it), we also have immediate settlement option (Pay now). This year, Klarna launched Slice it in 3 and 4 in the UK and the US respectively, offering consumers a short-term (3 months or 4 weeks) free instalment plan with no interest or fees. Klarna also launched a payment card, over 50,000 cards have already been issued, as well as a shopping browser with a single-use virtual card, making it possible for our app users to use Klarna also at merchants not connected to Klarna, both online and in physical stores, this is what we refer to as the 'Klarna everywhere' concept. Together, this ensures that consumers can choose how and when to pay for purchases based on their needs and preferences.

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

During the year, Klarna launched several SME focused services. One example is Boost, a merchant lending product that democratises and simplifies access to capital for SMEs to help them accelerate growth and unlock potential. Another example is the new automated and simplified onboarding tool that makes it easier for SME merchants to start to use Klarna's services. Klarna has also launched a new merchant portal, including tools that provides all merchants with additional insights on their current customer base.

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

Business performance
Total sales volume increased by 36% compared to 2017. This was driven by strong growth in the existing merchant base, coupled with continual on-boarding of new merchants across all regions. During 2018, the DACH region established itself as our largest market based on sales volume and the realisation of a successful integration of BillPay GmbH has also contributed positively to this growth trajectory.

Total operating revenues, net, grew by 31% year-on-year resulting in SEK 5,450m at year-end. Klarna had an interest income of SEK 2,034m, corresponding to a 28% growth primarily driven by an increase in the popularity of the Slice it product amongst consumers. Commission income increased by 37% to SEK 3,999m, supported by increased volumes and higher consumer activity. Following the reconciliation of revenues under IFRS 9 and IFRS 15, a reclassification of SEK 155m from interest income to commission income in 2018 was made. As planned, reminder fees related to Klarna's Pay later and Slice it products have continued to decrease in relation to operating revenues.

Total operating expenses grew by 44% as we invest to further strengthen our capabilities, product offering and to support future business expansion. The core business focus is on driving growth and an acceleration from initial investments is already being realised. Investment in talent has increased the average number of full-time equivalents to 1,713 from 1,380 (excluding consultants). We also continue to invest in building our Klarna brand across our markets.

Net credit losses increased by 57% year-on-year, as loans to the public grew significantly, with a higher share of Slice it receivables in relation to total receivables, and strong growth related to expansion in new markets. Furthermore, the implementation of IFRS 9 in 2018 drives higher coverage ratios on early arrear exposures, compared to IAS 39.

Net income recorded at SEK 103m, compared to SEK 345m in 2017.

Loans to the public grew by 44% to SEK 19,979m mainly due to an increased share of Slice it product as a percentage of total volume predominantly in the Nordic countries and the DACH region, but also due to significant global merchant acquisitions.

Deposits from the public grew by 72% to SEK 14,582m, primarily driven by EUR deposits in Germany.

For further comments see below on significant events during the year as well as the notes.

Significant events during the year

On February 13, 2018, an announcement of closure of the Klarna Tel Aviv site in Israel was made. The decision was made as part of our overall strategy to focus on strengthening our commercial and operational presence in our key commercial markets where our merchants and partners are located. All 31 Klarna staff employed in Tel Aviv were offered the possibility to continue to work in other Klarna locations.

On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

In May 2018, a decision was taken to close part of the debt collection business, Ident Inkasso AB, including its German branch. All staff employed in Sweden and Germany were offered the possibility to continue to work in other Klarna companies.

On June 12, 2018, the company acquired the shelf company Goldcup 16295 AB, which has subsequently changed names to Klarna Midco AB.

On July 5, 2018, the company's subsidiary Klarna Bank AB (publ) issued subordinated Tier 2 notes in the principal amount of SEK 300m.

The company has by way of shareholder contribution transferred approximately 2.8% of the shares in Klarna Bank AB (publ) to Klarna Midco AB. The company has sold shares at market value and per year end held approximately 91% of the shares in Klarna Midco AB.

On September 13, 2018, the company's subsidiary Klarna Bank AB (publ) entered into an agreement to acquire Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019.

On September 28, 2018, the Company resolved to issue 193,000 shares. All shares have been subscribed to and fully paid up and the company's share capital has been increased by SEK 19,300.

On November 15, 2018, the company issued additional Tier 1 instruments in the principal amount of EUR 25m.

On November 15, 2018, the company's subsidiary Klarna Bank AB (publ) received approval to operate a Branch in the United Kingdom.

Future development

Klarna continues to develop the smoooth purchase experience, supporting merchant growth and driving consumer loyalty by offering flexibility and control over their payments but also ensuring they spend less time managing their finances, so they have more time to do what they love. This is evident in the strong progress in consolidation of leading position in Nordics, but more particularly the growth across continentiel Europe, increasing DACH market share which is now our largest market and huge momentum in UK as offer resonates strongly. The investments made in capabilities and talent over the year are so Klarna can further enhance our offering for both merchants and consumers, which provides a platform for driving sustained customer preference and growth in the next years. Product and services development for consumers and merchants will continue at pace across all our markets.

Risks and risk management

Through its business activities Klarna is subject to a number of different risks, the main ones being credit risk, operational risk, market risk (interest risk and currency risk) and liquidity risk. For a more detailed description, see note 3.

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

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

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

ESG and corporate governance reports
In accordance with the Annual Accounts Act chapter 6, 11§, Klarna Holding AB has decided to report the Environmental, Social and Governance report (ESG) separated from the annual report. The ESG report has been submitted to the auditors at the same time as the annual report. The ESG report is available at Klarna's website: www.klarna.com

In accordance with the Annual Accounts Act chapter 6, 8§, the company's subsidiary Klarna Bank AB (publ) has decided to report the Corporate governance report separated from the annual report. The Corporate governance report has been submitted to the auditors at the same time as the annual report. The report is available at Klarna's website: www.klarna.com

Proposed treatment of unappropriated earnings
The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,978,240,952 on Klarna Holding AB's balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,369,520	SEK
Retained earnings	3,251,772,915	SEK
Net income for the year	470,098,517	SEK
Total	3,978,240,952	SEK

Five Year Summary, Group

Amounts in SEKk	2018	2017	2016	2015	2014
Income Statement					
Total operating revenues, net[1]	5,450,475	4,158,025	3,289,510	2,581,768	1,980,254
Operating income	158,510	522,701	168,057	169,900	101,231
Net income for the year	103,352	344,606	113,239	127,212	75,215
Balance Sheet					
Loans to credit institutions	2,721,841	1,248,933	1,234,724	499,823	756,221
Loans to the public	19,979,002	13,874,164	8,450,037	6,104,075	4,513,304
All other assets	5,515,097	3,901,702	2,400,008	2,151,092	1,925,818
Total assets	**28,215,940**	**19,024,799**	**12,084,769**	**8,754,990**	**7,195,343**
Liabilities to credit institutions	1,418,054	396,965	754,944	708,826	386,116
Deposits from the public	14,581,769	8,491,654	5,839,490	3,959,427	3,705,020
All other liabilities	7,371,972	5,894,655	2,698,415	1,567,855	1,074,733
Total equity	4,844,145	4,241,525	2,791,920	2,518,882	2,029,474
Total liabilities and equity	**28,215,940**	**19,024,799**	**12,084,769**	**8,754,990**	**7,195,343**
Key Ratios and Figures[2]					
Return on equity	3.5%	14.9%	6.3%	7.5%	7.0%
Return on assets	0.4%	2.2%	1.1%	1.6%	1.3%
Debt/equity ratio	4.2	3.4	2.9	2.5	3.1
Equity/assets ratio	17.2%	22.3%	23.1%	28.8%	28.2%
Cost/revenue ratio	82.7%	75.4%	82.0%	80.4%	83.4%
Own funds (Total capital)	3,424,327	2,830,504	1,928,585	1,388,231	819,777
Capital requirement	1,820,881	1,244,297	820,138	578,504	431,855
Total capital ratio	15.0%	18.2%	18.8%	19.2%	15.2%
Average number of full-time equivalents	1,713	1,380	1,244	1,074	1,017

[1] Total operating revenues, net, have been restated for previous periods due to changed presentation of the income statement.

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

Income Statement, Group

Amounts in SEKk	Note	2018[1]	2017[1]
Interest income calculated according to the effective interest rate method	4	2,033,517	1,591,015
Interest expenses	5	-232,015	-138,704
Net interest income		**1,801,502**	**1,452,311**
Commission income	6	3,999,394	2,924,191
Commission expenses	7	-328,870	-205,253
Net result from financial transactions	8	-27,405	-23,899
Other operating income		5,854	10,675
Total operating revenues, net		**5,450,475**	**4,158,025**
General administrative expenses	9, 10, 11	-4,351,652	-2,934,031
Depreciation, amortisation and impairment of intangible and tangible assets	12	-154,746	-200,575
Total expenses before credit losses		**-4,506,398**	**-3,134,606**
Operating income before credit losses, net		**944,077**	**1,023,419**
Credit losses, net	13	-785,567	-500,718
Operating income		**158,510**	**522,701**
Income tax	14	-55,158	-178,095
Net income for the year		**103,352**	**344,606**
Whereof attributable to:			
Shareholders of Klarna Holding AB		103,086	344,606
Non-controlling interests		266	-
Total		**103,352**	**344,606**

Statement of Comprehensive Income, Group

Net income for the year	**103,352**	**344,606**
Items that may be reclassified subsequently to the income statement:		
Exchange differences, foreign operations	66,444	50,931
Other comprehensive income for the year, net after tax	**66,444**	**50,931**
Total comprehensive income for the year	**169,796**	**395,537**
Whereof attributable to:		
Shareholders of Klarna Holding AB	169,048	395,537
Non-controlling interests	748	-
Total	**169,796**	**395,537**

[1] The presentation of the income statement has been changed for 2018 and restated for 2017. In note 40 the change in presentation for 2017 is disclosed.

Balance Sheet, Group

Amounts in SEKk	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and balances with central banks		331	36
Chargeable central bank treasury bills	16	3,084,314	1,847,705
Loans to credit institutions	17, 19	2,721,841	1,248,933
Loans to the public	18, 19	19,979,002	13,874,164
Other shares and participations		41,217	-
Intangible assets	20	2,006,084	1,801,072
Tangible assets	21	80,602	61,844
Deferred tax assets	14	47,508	21,763
Other assets	22, 23	109,202	96,813
Prepaid expenses and accrued income	24	145,839	72,469
Total assets		**28,215,940**	**19,024,799**
Liabilities			
Liabilities to credit institutions	25	1,418,054	396,965
Deposits from the public	26	14,581,769	8,491,654
Debt securities in issue	27	1,996,905	1,995,036
Deferred tax liabilities	14	117,633	136,276
Other liabilities	23, 28	3,887,025	2,955,100
Accrued expenses and prepaid income	29	533,261	381,709
Provisions	30	239,588	129,413
Subordinated liabilities	31	597,560	297,121
Total liabilities		**23,371,795**	**14,783,274**
Equity			
Share capital		1,986	1,967
Other capital contributed		3,164,734	2,979,011
Reserves		190,289	124,328
Additional Tier 1 instruments		505,738	250,000
Retained earnings		818,196	541,613
Net income for the year		103,086	344,606
Non-controlling interests		60,116	-
Total equity		**4,844,145**	**4,241,525**
Total liabilities and equity		**28,215,940**	**19,024,799**

Statement of Changes in Equity, Group

Amounts in SEKk	Share capital	Other capital contributed	Reserves[2]	Additional Tier 1 instruments	Retained earnings	Net income	Total equity excl. non-controlling interests	Non-controlling interests	Total equity
Balance as at January 1, 2018	**1,967**	**2,979,011**	**124,328**	**250,000**	**541,613**	**344,606**	**4,241,525**	**-**	**4,241,525**
Impact of adopting IFRS 9	-	-	-	-	-69,246	-	-69,246	-	*-69,246*
Impact of adopting IFRS 15	-	-	-	-	21,447	-	21,447	-	*21,447*
Restated opening balance	**1,967**	**2,979,011**	**124,328**	**250,000**	**493,814**	**344,606**	**4,193,726**	**-**	**4,193,726**
Transfer of previous year's net income	-	-	-	-	344,606	-344,606	-	-	-
Net income for the year	-	-	-	-	-	*103,086*	103,086	*266*	*103,352*
Exchange differences, foreign operations	-	-	*65,961*	-	-	-	65,961	*482*	*66,444*
Total comprehensive income for the year	-	-	**65,961**	-	-	**103,086**	**169,047**	**748**	**169,795**
New share issue	19	185,840	-	-	-	-	185,859	-	185,859
Share warrants	-	-117	-	-	-	-	-117	-	-117
Share-based payments	-	-	-	-	7,700	-	7,700	-	7,700
Additional Tier 1 instruments[1]	-	-	-	256,370	-18,803	-	237,567	*-34*	237,533
Changes in non-controlling interests	-	-	-	-632	-9,121	-	-9,753	*59,402*	49,649
Balance as at December 31, 2018	**1,986**	**3,164,734**	**190,289**	**505,738**	**818,196**	**103,086**	**4,784,029**	**60,116**	**4,844,145**
Balance as at January 1, 2017	**1,879**	**2,169,752**	**73,397**	**-**	**433,653**	**113,239**	**2,791,920**	**-**	**2,791,920**
Opening balance, manual adjustment	-	-4,029	-	-	4,029	-	-	-	-
Transfer of previous year's net income	-	-	-	-	113,239	-113,239	-	-	-
Net income for the year	-	-	-	-	-	*344,606*	344,606	-	344,606
Exchange differences, foreign operations	-	-	*50,931*	-	-	-	50,931	-	50,931
Total comprehensive income for the year	-	-	**50,931**	-	-	**344,606**	**395,537**	**-**	**395,537**
New share issue	88	813,461	-	-	-	-	813,549	-	813,549
Share warrants	-	-173	-	-	-	-	-173	-	-173
Share-based payments	-	-	-	-	-522	-	-522	-	-522
Additional Tier 1 instruments[1]	-	-	-	250,000	-8,785	-	241,215	-	241,215
Balance as at December 31, 2017	**1,967**	**2,979,011**	**124,328**	**250,000**	**541,613**	**344,606**	**4,241,525**	**-**	**4,241,525**

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

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

Cash Flow Statement, Group

Amounts in SEKk	Note	2018	2017
Operating activities			
Operating income		158,510	522,701
Taxes paid		-98,965	-123,418
Adjustments for non-cash items in operating activities			
Depreciation, amortisation and impairment	12	154,746	200,575
Share-based payments		7,700	-522
Provisions excluding credit losses		146,601	86,560
Provision for credit losses		166,485	188,127
Financial items including unrealised exchange rate effects		-27,794	22,136
Changes in the assets and liabilities of operating activities			
Change in loans to the public		-6,255,744	-5,331,454
Change in liabilities to credit institutions		1,021,089	-357,979
Change in deposits from the public		6,090,115	2,652,164
Change in other assets and liabilities		-638,444	-455,534
Cash flow from operating activities[1]		**724,299**	**-2,596,644**
Investing activities			
Investments in intangible assets	20	-259,678	-127,903
Investments in tangible assets	21	-53,490	-32,779
Sales of fixed assets		671	-23
Investments in subsidiaries	41	-50	-400,324
Divestment of shares in subsidiaries		49,650	-
Investments in other shares and participations		-41,217	-
Cash flow from investing activities		**-304,114**	**-561,029**
Financing activities			
New share issue		185,859	813,549
Share warrants		-117	-173
Additional Tier 1 instruments		250,890	248,000
Senior unsecured bond		-	1,994,000
Subordinated debt		297,750	-
Cash flow from financing activities		**734,382**	**3,055,376**
Cash flow for the year		**1,154,567**	**-102,297**
Cash and cash equivalents at the beginning of year		**1,080,256**	**1,171,736**
Cash flow for the year		1,154,567	-102,297
Exchange rate diff. in cash and cash equivalents		36,793	10,817
Cash and cash equivalents at the end of year		**2,271,616**	**1,080,256**
Cash and cash equivalents include the following items			
Cash and balances with central banks		331	36
Loans to credit institutions[2]		2,271,285	1,080,220
Cash and cash equivalents		**2,271,616**	**1,080,256**

[1] Cash flow from operating activities includes interest payments received and interest expenses paid, see note 37.

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

Notes with Accounting Principles

Note 1 Corporate information

Klarna Holding AB, 556676-2356, maintains its registered office in Stockholm at the address Sveavägen 46, 111 34 Stockholm, Sweden. The consolidated financial statements for 2018 consist of the Parent Company and its subsidiaries, together they make up the Group. The Group's business is described in the Report of the Board of Directors.

The consolidated financial statements and the Annual Report for Klarna Holding AB for the financial year 2018 were approved by the Board of Directors and the CEO on March 27, 2019. They will ultimately be adopted by Klarna Holding AB's Annual General Meeting on April 25, 2019.

Note 2 Accounting and valuation principles

1) Basis for the preparation of the reports

Group

These annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) such as they have been adopted by the EU. In addition to these accounting standards, the Swedish Financial Supervisory Authority regulations (FFFS 2008:25), the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL, 1995:1559), the recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board have also been applied.

Parent Company

The Parent Company, Klarna Holding AB, prepares the annual accounts in accordance with the Annual Accounts Act (ÅRL, 1995:1554). The accounting recommendation for legal entities RFR 2 amended by the Swedish Financial Reporting Board has also been applied. The Group's accounting principles are also applicable for the Parent Company unless otherwise described in this note.

The preparation of reports in accordance with IFRS requires the use of a number of estimates for accounting purposes. The areas which involve a high degree of assessment or complexity and which are of considerable importance for the annual accounts will be reported in section 24.

2) Changed accounting principles

The income statement for the Group has changed presentation in 2018. 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). The change in accounting principle has been applied for comparable figures and increases comparability since it follows the presentation of the largest company of the group; Klarna Bank AB (publ). The change in presentation for the income statement 2017 is presented in note 40.

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

IFRS 9 Financial instruments

IFRS 9 covers the classification and measurement of financial assets and liabilities, impairment and hedge accounting, and replaces most of the guidance in IAS 39. The standard became effective for the Group as of 1 January 2018 and comparative figures for 2017 have not been restated.

The classification and measurement requirements in IFRS 9 state that financial assets should be classified as, and measured at, amortised cost, fair value through profit or loss or fair value through other comprehensive income (see section "Financial assets and liabilities – classification and reporting" below). The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

The analysis of the business model and the SPPI review have resulted in a reclassification of the chargeable central bank treasury bills which were previously reported as designated at fair value through profit or loss under IAS 39. For these instruments, the business model is hold to collect and the cash flows are deemed to be solely payments of principal and interest. Therefore, as of 1 January 2018, the chargeable central bank treasury bills are measured at amortised cost since they no longer fulfill the designation requirements according to IFRS 9 but instead comply with the requirements for the amortised cost category.

The impairment requirements in IFRS 9 are based on an expected credit loss (ECL) model instead of the incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than under IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment model (see section "Impairment of financial assets, financial guarantees and commitments" below).

As a result of applying the IFRS 9 rules, allowances for credit losses increased by SEK 90m for the Group as of 1 January 2018. Provisions for financial guarantees and commitments have decreased by SEK 2m as of 1 January 2018. The impact on equity was SEK -69m, net of tax. The increase in allowances for credit losses is driven by the IFRS 9 requirement to also hold provisions for assets without a significant increase in credit risk (stage 1 as defined in the IFRS 9 standard) as opposed to IAS 39 that requires provisions for losses incurred.

During the reporting period Klarna decided to develop a new ECL modelling approach which was implemented in the last quarter of 2018. The effect of the new model, which is a change in estimate, is shown in note 18. Impairment according to this new model is described in the section "Impairment of financial assets, financial guarantees and commitments" below. Compared to the old model it captures the ageing of the receivables on a more detailed level, which in turn captures more granular differences in the probability of default (PD) and thereby produces more precise ECL values. Forward looking effects cannot be predicted since they are dependent on the volume of future financial receivables.

Hedge accounting is not applied by the Group.

IFRS 15 Revenues from contracts with customers

From 1 January 2018, Klarna is applying IFRS 15. The standard establishes the principles for revenue recognition from contracts with customers, but it does not impact the recognition of revenue within the scope of IFRS 9.

Revenues for different types of services are reported as commission income. Commissions and fees for payment services are recognised when the performance obligations have been satisfied which can be at a point in time or over time. The revenues are measured at the fair value of the economic benefits associated with the transaction. Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognised in interest income calculated according to the effective interest rate method. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

Klarna has applied the retrospective approach with recognising the cumulative effect of initially applying IFRS 15 as an adjustment of the opening balances of equity. The effect reflects a change in the timing of revenues for reminder and dunning fees for the Pay Later product. This change was made as a result of the implementation of IFRS 15 and amounts to SEK 21m, net of tax.

As a result of applying IFRS 9 and IFRS 15, a classification of revenues between interest income and commission income has been made. The effect for the financial year of 2018 is a reclassification of SEK 155m from interest income to commission income.

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

IFRS 16 Leases

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019 and the EU adopted the standard in November 2017. Early adoption is permitted. Klarna is applying IFRS 16 from 1 January 2019.

Klarna has applied the modified retrospective approach when implementing IFRS 16 and reports lease contracts for which the contract term ends within twelve months as short-term leases and excludes indirect costs from the measurement of the right-of-use asset at the date of initial application. The practical expedients for short-term contracts and low value assets are used. Furthermore, the practical expedient of not separating non-lease components from lease components is applied to car leases. This has resulted in a right of use asset of SEK 438m, a reduction of prepaid expenses of SEK 19m and a lease liability of SEK 419m for the Group. The right of use assets consist mainly of office space and car lease contracts. IFRS 16 does not have a significant impact on the financial statements and capital ratios.

Other future changes in IFRS

1. IFRS 17 Insurance Contracts
2. IAS 19 Plan Amendments, Curtailments or Settlements
3. Amendments to IFRS 9: Prepayment Features with Negative Compensation
4. Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
5. Annual Improvements to IFRS Standards 2015-2017 Cycle
6. IFRIC 23 Uncertainty over Income Tax Treatments
7. References to the Conceptual Framework in IFRS Standards

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

3) Group consolidation principles

The consolidated accounts are presented according to the acquisition method and comprise of Klarna Holding AB and its subsidiaries. The companies are consolidated as from the date when control is transferred to Klarna and consolidation comes to an end when Klarna no longer has control. In the case of business combinations, a purchase price allocation is prepared, where identifiable assets and liabilities are valued at fair value at the time of acquisition. The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognised as goodwill in the Group's balance sheet. Acquisition-related costs are recognised in the income statement when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date.

Intragroup transactions and receivables and liabilities between the group companies are eliminated.

Subsidiaries
Subsidiaries are those companies that Klarna Holding AB controls. Control exists when Klarna is exposed to variability in returns from its investments in another entity and has the ability to affect those returns through its power over the other entity. This is usually achieved when the ownership amounts to more than half of the voting rights.

4) Foreign currency translation

Presentation currency and functional currency
The Financial Statements are prepared in Swedish kronor, which is the presentation currency of the Group. The functional currency is the currency of the primary economic environment in which an entity operates. Different entities within the Group therefore have different functional currencies. The functional currency for Klarna Holding AB is Swedish kronor.

Transactions and balance sheet items
Transactions in a foreign currency are translated into the functional currency at the exchange rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate at the end of the reporting period. All profits and losses as a result of the currency translation of monetary items, including the currency component in forward agreements, are reported in the income statement as exchange rate fluctuations under the heading net income from financial transactions.

Subsidiaries
Foreign subsidiaries' assets and liabilities are translated at the closing day rate of exchange and income statement items at the average exchange rate. Translation differences are reported in other comprehensive income.

5) Interest and commissions

Revenues are recognised in accordance with the effective interest method or when identified performance obligations have been fulfilled. The Group's revenues and expenses are reported after elimination of intragroup transactions.

Interest income and interest expenses
The effective interest method is used for recognising interest income and interest expenses on all financial assets and liabilities measured at amortised cost. When measuring a financial asset or a financial liability to amortised cost, the interest income or expense is allocated over the relevant period. The effective interest rate is the rate that corresponds to the rate used for discounting estimated future cash flows to the reported value of the financial asset or liability. The estimated future cash flows used in the calculation include all fees that are considered to be integral to the effective interest rate.

The interest income calculated according to the effective interest rate method consists mainly of interest from loans to the public in the form of revolving credits and interest from lending to credit institutions.

Commission income and commission expenses
Revenues and expenses for different types of services are reported as commission income or commission expenses. Commission income stems from merchants that have an agreement with Klarna and different types of fees related to end-customer receivables.

Commission income from merchants: Klarna provides merchants with a combined service offering (1) a simple, safe and cost-effective payment solution while at the same time (2) providing consumers with credit products and catering for credit risk. Since these two types of services are highly interrelated, this service package epitomises one identified and distinct performance obligation. This performance obligation presents a stand-ready obligation which is satisfied over the contract period since the merchant receives the benefit of that service package over that period.

The transaction price of that performance obligation consists of both fixed and variable components. The variable parts are constraint since they are highly dependent on consumer transactions and therefore not included in the initial transaction price. The transaction price is updated regularly to mirror the dissolved uncertainty occurring in the performance obligation due to the variable components.

The process of completion is measured by evaluating the value to the customer of the provided service transferred to date relative to the remaining services promised under the contract. Since the amount of transactions and usage of the payment solution for the entire contract period is initially unknown, the process of completion is measured by using time elapsed. The revenues are then recognised over time.

Commission income from consumers: Klarna provides consumers with safe and simple online purchases and the possibility to choose when in time to pay. Commission income from consumers is fixed amounts which arise from handling different types of payment options; this constitutes the transaction price. The respective performance obligation is satisfied at the date when the account statements or paper invoices are sent out. The revenue from the consumer commissions is therefore recognised at that point in time.

Commission and fees for extending credit are considered to be an integral part of the effective interest rate and are therefore recognised in interest income.

6) Net income from financial transactions

The net income from financial transactions comprises realised changes in fair value of derivatives, realised and unrealised exchange rate effects and impairment of shares.

7) General administrative expenses

General administrative expenses consist of employee expenses, including salaries, pensions, social charges, and other administrative expenses such as office and computer expenses.

8) Net credit losses

Impairment losses from financial assets classified into the category “measured at amortised cost” (see section “Financial assets and liabilities – classification and reporting” below), in the items Loans to credit institutions and Loans to the public on the balance sheet, are reported as Net credit losses. Furthermore, net credit losses from off-balance sheet exposures related to financial instruments are also reported on this line.

Net credit losses for the period comprise of realised credit losses, recovered amounts from debt sales and provisions for credit losses for granted credit with a deduction for the reversal of provisions for credit losses made previously. Realised credit losses are losses whose amount is for example determined via bankruptcy, a composition arrangement, a statement by an Enforcement Authority or the sale of receivables. Provision for credit losses is calculated either as 12 month expected credit loss or lifetime expected credit loss based on the IFRS 9 impairment requirements, see section “Impairment of financial assets” below for more details.

9) Cash and balances with central banks

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks under government authority where the following conditions are fulfilled:

- the central bank is domiciled
- the balance is readily available at any time

10) Financial assets and liabilities – classification and reporting

Purchases and sales of financial assets and liabilities are reported on the trade date. Financial instruments are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred together with the risks and rights associated with ownership.

Financial instruments are initially measured at fair value including transaction costs except for financial assets and liabilities classified as fair value through profit or loss where the transaction costs are recognised in the income statement.

Unlike under IAS 39, financial instruments are classified into various categories based on both Klarna’s business model to manage its financial assets and the characteristics of the cash flows of the financial assets. Financial instruments are classified into the following categories in accordance with IFRS 9 Financial Instruments:

Financial assets and liabilities at amortised cost
From 1 January 2018, Klarna only classifies and measures its financial assets at amortised cost if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Klarna measures loans to the public and loans to credit institutions at amortised cost since they fulfill all requirements.

Klarna measures all financial liabilities at amortised cost except for its derivatives.

The amortised costs are determined on the basis of the effective interest that was calculated at the time of acquisition or origination. Financial assets at amortised cost are reported at the amount at which they are estimated to be received, that is after a deduction for impairments.

Financial assets and liabilities at fair value through profit or loss
This category has two subcategories:

> *Mandatory:* This category includes any financial asset that is not measured at amortised cost, thus does not fulfill one or both of the conditions to be met for a financial asset to be measured at amortised cost.
>
> *Designated*: This category includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes recognised in profit or loss.

Measurement is at fair value and realised and unrealised profits or losses as a result of changes in fair value are included in the income statement in the period in which they arise. The fair value of financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Klarna uses different methods to determine the fair value, see section "Financial assets and liabilities – measurement" below.

Klarna measures its derivatives as well as its investments in equity instruments at fair value through profit or loss. Both do not fulfill the conditions for being measured at amortised cost. In case Klarna's derivatives have negative values, these financial liabilities are measured at fair value through profit or loss. Klarna does neither measure any other financial liability at fair value through profit or loss nor designates any financial instrument at fair value through profit or loss.

Financial assets at fair value through other comprehensive income
Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective of both: collecting contractual cash flows and selling financial assets, and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Klarna does not classify any financial asset at fair value through other comprehensive income since Klarna has no business model whose objective it is to both collect contractual cash flows and to sell financial assets. Klarna does not use the option to designate its equity instruments as measured at fair value through other comprehensive income under IFRS 9.

From 1 January 2018, Klarna has not reclassified its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified.

The classification of financial assets and liabilities follows internal reporting and follow-up within the Group.

Accounting principles relating to prior year's numbers for financial instruments are presented in the annual report for 2017 except for the accounting principles regarding the impairment of loans and receivables which are presented under section 12.

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

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

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

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

12) Impairment of financial assets, financial guarantees and commitments
With the adoption of IFRS 9 on 1 January 2018, Klarna's impairment calculation method changed essentially. Klarna is recording allowances for expected credit losses (ECL) for all loans and other financial assets not measured at fair value through profit or loss. Klarna calculates allowances for:

- Loans to the public
- Loans to credit institutions
- Financial guarantees and commitments

Chargeable central bank treasury bills have been evaluated for impairment. The expected credit losses have been assessed as immaterial due to the features of the assets. This is also applicable for the majority of the loans to credit institutions which have strong credit ratings and are highly liquid.

Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on either the 12 months' expected credit loss (12m ECL) or on the lifetime expected credit loss (lifetime ECL). The ECL allowance is based on the latter, if there has been a significant increase in credit risk since initial recognition.

Lifetime ECL and 12m ECL are calculated on a collective basis. When calculating ECL on a collective basis, the ECL components are calculated based on segmentation which is built on shared risk characteristics. The probability of default (PD) component is segmented by geographical region, instrument type and by days since origination.

The loss given default (LGD) component is segmented by geographical region, by merchant type, whether a consumer has previously paid with Klarna and by days past due. These PD and LGD estimates are obtained for each of the segment permutations, which is used to calculate the ECL on a collective basis. Since collateral is not held as security, it is not part of the ECL calculations.

Klarna groups its financial assets and off-balance sheet items within the scope of the IFRS 9 impairment requirements into the following:

Stage 1:
Klarna allocates financial assets to stage 1 at initial recognition and until there is a significant increase in credit risk. The allowance is calculated based on 12m expected credit losses. Stage 1 also includes loans where the credit risk has improved and that were reclassified from stage 2 and 3.

Stage 2:
When a loan has shown a significant increase in credit risk since initial recognition, Klarna allocates it to stage 2. The allowance for these loans is calculated based on lifetime expected credit losses. Stage 2 also includes loans where the credit risk has improved and that were reclassified from stage 3.

Stage 3:
Klarna allocates loans to stage 3 that are considered “credit impaired”. Klarna determines whether a financial asset is credit impaired based on the historical payments received by the consumer. Based on the default definition (see definition below) a financial instrument is considered being “credit impaired” if it is 90 days past due, has entered debt collection or is classified as fraudulent. The allowance for these stage 3 loans is calculated based on lifetime expected credit losses.

POCI:
Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are not allocated to the 3-stage impairment model and are recognised at their fair value at initial recognition.

Significant increase in credit risk:
Klarna assesses, at the end of each reporting period, whether the credit risk of a financial instrument has increased significantly since initial recognition in order to determine whether 12m ECL or lifetime ECL has to be calculated. Klarna determines whether there has been a significant increase in risk on its credit products based on the cash received by the consumer. The definition of a significant increase in credit risk is further influenced by other factors that depend on the product type like days past due or whether the consumer has other contracts with Klarna that are already in stage 2 or 3. An asset being 30 days past due is used as an indicator for a significant increase in credit risk since initial recognition.

If Klarna determines at the reporting date that there is no longer a significant increase in credit risk compared to prior periods, Klarna transfers the respective financial assets back into stage 1 and the allowance is reduced to an ECL calculated on a 12 month basis.

Definition of default:
Financial assets are defaulted when the asset has been 90 days or more past due without any payments, has entered debt collection or is classified as fraudulent.

Whether the default criteria are met is determined by analysing historical payment patterns and assessing whether there is no realistic expectation of recovery.

Measurement of ECL:
The expected credit loss (ECL) for consumer receivables is calculated as a product of the key inputs PD, LGD and the outstanding balance discounted with the effective interest rate (EIR). These parameters are derived from internal statistics and other historical data.

Probability of Default (PD):
The historical balances as well as the proportion of those balances that default over time are used as a base to determine the PD. This approach is applied over different vintages for different countries and for days since origination. Hence, this methodology provides values for 12 month and lifetime PDs for different countries and days since origination. In cases where the maturity of the financial assets is very short, which is common for Klarnas products, the 12 months PD and lifetime PD have equal values.

Loss Given Default (LGD):
LGD is the magnitude of the likely loss if there is a default. Klarna calculates the loss given default using the historical balances over different vintages as a base. Furthermore, the LGD component is determined based on days past due. The recovery rate used in the LGD calculation is determined using the amount recovered from debt sales.

Effective Interest Rate (EIR):
The effective interest rate is determined based on the product type. It discounts the estimated future cash payments through the expected life of the financial instrument to net present value. Calculating the effective interest rate, Klarna considers all financial terms of the financial instrument as well as all corresponding fees. For products that do not charge any interest or fees that constitute as loan servicing fees the effective interest rate is determined to be 0%. For products that do charge interest or fees that are to be included in the effective interest rate, the EIR is approximated as a yearly interest rate.

This product specific EIR is then used to discount the outstanding balance which represents the expected exposure in the event of default. Klarna's loss rates of consumer receivables are not significantly affected by macroeconomic factors due to the unique design and short maturities of Klarna's credit products. Furthermore, Klarna's underwriting process is built on point in time assessments of transactions where the current state of the consumer is regularly assessed. In combination with the short duration of Klarna's credit products, this leads to an automatic adjustment to new market scenarios. The current ECL model is continuously reviewed and adjusted.

For financial guarantees and commitments the measurement of ECL follows mainly the same methodology as for consumer receivables but further includes a credit conversion factor (CCF) in the calculation of the exposure at default (EAD). The CCF is the proportion of the undrawn amount that is expected to be drawn in the event of default.

Financial assets for which Klarna has no reasonable expectation of recovering either the entire outstanding amount or a proportion thereof, are written off. Hence, the gross carrying amount of the financial asset is reduced and the amount of the loss is recognised in the income statement as Credit losses, net. Financial assets are generally written off when Klarna determines that the outstanding debt cannot be collected anymore as the borrower does not have assets or sources of income that could be used to repay the amounts subject to write-offs. To determine whether the outstanding debt cannot be collected anymore, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in principal payments. Financial assets which have been written off are no longer subject to enforcement activities.

When it is considered that there is no realistic prospect of recovery or when the loan or receivable is sold to an external party, the financial asset and the related allowance are removed from the balance sheet.

In case a financial asset faces a substantial contractual modification, the previous asset is derecognised and a new asset is recognised. If the modified financial asset fulfills the definition of "credit impaired", Klarna applies the requirements for purchased or originated credit impaired assets for the recognition of the new asset. If a financial asset faces a non-substantial contractual modification the financial asset is not derecognised and it is assessed if there occurred a significant increase in credit risk since initial recognition. As of now, the volume of contractual modifications is immaterial.

The simplified approach is used when calculating expected credit losses on merchant receivables. Hence the loss allowance for merchant receivables is always measured at an amount equal to lifetime expected credit losses. The merchant receivables are, therefore, initially allocated to stage 2. In order to assess whether a transfer into stage 3 is necessary, Klarna regularly analyses the risk that the merchant would default which is based on quantitative as well as qualitative factors.

Impairment of loans and receivables before the adoption of IFRS 9
Klarna tests all loans and receivables for impairment. The Group assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. Loans and receivables that are not individually significant are assessed collectively.

To determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or breach of contract, for example, default or delinquency in principal payments.

If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan(s) or receivable(s) and the present value of expected future cash flows discounted at its original effective interest rate. The carrying amount of the loans and the receivables is reduced by making a provision for credit losses and the amount of the loss is recognised in the income statement as credit losses, net.

The collective assessment of impairment is to establish an allowance amount on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The allowance amount represents the incurred losses on the portfolio of smaller-balance homogeneous loans and receivables, which are loans and receivables within the retail business. The loans and receivables are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience.

When it is considered that there is no realistic prospect of recovery or when the loan or receivable is sold to an external party, the loan or the receivable and the related allowance are removed from the balance sheet.

If in a subsequent period the amount of a previously recognised impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognised in profit or loss.

13) Derivative instruments

Derivative instruments are reported in the balance sheet on their trade date and are measured at fair value, both initially and at subsequent revaluations. Derivative instruments are classified as other assets or other liabilities. Changes in the fair value of derivative instruments are reported immediately in the income statement in the item Net income from financial transactions.

The Group does not apply hedge accounting and has no embedded derivatives.

14) Borrowing

Financial liabilities with regard to borrowing are categorised as liabilities which are initially reported at fair value, net of transaction costs incurred and then at amortised cost and with application of the effective interest method. This category comprises Liabilities to credit institutions, Deposits from the public, Debt securities in issue and Subordinated liabilities.

15) Leasing

Any leasing agreements are attributable to normal agreements for the business and are primarily for office premises, cars and office equipment and are classified as operational leasing. Lease payments for these agreements are expensed linearly over the lease term.

16) Intangible assets

Goodwill
The amount by which a purchase sum, any non-controlling interest or the fair value on the day of acquisition of former shareholdings exceeds the fair value of identifiable acquired net assets is reported as goodwill. Goodwill on acquisitions of subsidiaries is reported as an intangible asset. Goodwill is tested annually to identify any impairment requirement and is recorded at acquisition cost less accumulated impairment. Impairment of goodwill is not reversed. Goodwill is divided among cash-generating units when testing for any impairment requirement.

Brand names and customer related intangible assets
In business combinations a portion of the acquisition price can be allocated to brand names and customer related intangible assets. They are reported at acquisition cost less accumulated depreciation and any accumulated impairment. Straight line depreciation is carried out over the assessed useful life (3-20 years). Certain intangible assets have an indefinite useful life and hence are not amortised, but are tested for impairment at least annually.

Capitalised development expenses and licenses
Costs associated with IT systems and software which have been developed in-house or acquired and which are expected to be of considerable value for the business during at least three years are recognised as intangible assets. Costs for maintenance are expensed as incurred. Straight line depreciation is carried out over the assessed useful life (5 years).

Impairment
Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows. Disclosures on performed impairment test are provided in note 20.

Intangible assets with definite useful lives are reviewed for indications of impairment. If indications exist an impairment test is performed.

17) Tangible assets

Tangible assets consist of equipment, fixtures and fittings, and computers. Tangible assets are reported at acquisition cost after a deduction for accumulated depreciation and any accumulated impairment. By acquisition cost is meant expenses that are directly attributable to the acquisition of the asset. Straight line depreciation is carried out over the assessed useful life.

The following useful life periods are applied:

Equipment, tools, and fixtures and fittings	5 years
Computers and other machinery	3 years
Investments in rented facilities	No longer than the contract time

Assessment of an asset's residual value and useful life is done annually. When the residual value is less than the carrying value an impairment is recognised in the income statement.

18) Participations in subsidiaries

Participations in subsidiaries are reported in the Parent Company according to the acquisition method. If it is assessed that the fair value at the end of the reporting period is less than the acquisition cost, the shares are written down. The impairment is reported in the income statement. If it is assessed that the value will increase again, the impairment is reversed via the income statement.

19) Tax

Income taxes consist of current tax and deferred tax. Income taxes are reported directly in the income statement except when the underlying transaction is reported directly against equity or other comprehensive income, in which case also the accompanying tax is reported in equity or other comprehensive income. Deferred tax is reported according to the balance sheet method for all temporary differences between an asset's or a liability's tax base and its carrying amount in the balance sheet. Deferred tax assets are reported for non-utilised tax relief to the extent it is probable that the relief will be able to be set off against future taxable surpluses. Deferred taxes are estimated according to the tax rate that is expected to apply at the time of taxation.

20) Share-based payments

For share-based payment to employees settled with equity instruments, the services rendered are measured with reference to the fair value of the granted equity instruments. The fair value of the equity instruments is calculated as per the grant date. The grant date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment. Since the granted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the expense and corresponding increase in equity are recognised over the entire vesting period. Non-market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested. Changes in the estimate of how many shares are expected to be vested due to the non-marked based vesting terms are recognised in the income statement and equity. Any related social charges are recognised as cash-settled share-based payment i.e. as an expense during the corresponding period based on the fair value that serves as the basis for a payment of social insurance charges.

21) Pensions

The Group's pension plans are defined contribution plans, which means that fees are paid to an independent legal entity according to a fixed pension plan. These fees are reported as personnel costs in the period they apply to. After the fees have been paid, the Group has no legal or other obligations.

22) Group contribution

Group contribution is reported in the Parent Company according to its financial significance. Group contribution received from a subsidiary is reported according to the same principles as dividend received. For parent companies this means that group contribution received is reported as revenue in the income statement. Group contribution paid by a parent company to a subsidiary is to be reported as increased participation in the group company. For subsidiaries that pay or receive group contribution, this is to be reported, together with the accompanying tax, in equity among retained earnings.

23) Cash flow statement

The cash flow statement is reported using the indirect method. The cash flow statement is divided into payments from operating activities, investing activities and financing activities. Operating activities are the main revenue-producing activities of the entity that are not investing or financing activities, operating cash flows include cash received from customers and cash paid to suppliers and employees. Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Financing activities are activities that alter the equity capital and borrowing structure of the entity.

24) Important estimations and assumptions for accounting purposes

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that are a consequence of these will by definition seldom correspond to the actual results. The estimates and assumptions that involve a considerable risk of significant adjustments in the carrying amounts for assets and liabilities during the subsequent financial year are dealt with in broad terms below.

Assessment of and impairment requirements for financial assets, financial guarantees and commitments

For financial assets that are measured at amortised cost or fair value through other comprehensive income as well as for loan commitments and financial guarantees the impairment requirements of IFRS 9 are applied. See section 12 above for impairment of financial assets, financial guarantees and commitments. Any assessments and assumptions used for the impairment calculations are subject to regular checks and follow-up.

Impairment requirements for goodwill and other intangible assets

The Group tests on a yearly basis if there is an impairment requirement for goodwill and other intangible assets with indefinite useful life, in accordance with the accounting principle described in note 20. This is tested by estimating the recoverable value, i.e. the highest of the realisable value and the value in use. If the recoverable value is lower than the carrying amount, the asset is written down.

The Group's intangible assets amounted to SEK 2,006,084k (1,801,072), whereof goodwill amounted to SEK 1,327,865k (1,275,723) at the end of the year and are related to the cash-generating units of Sofort GmbH, BillPay GmbH and Klarna Bank AB (publ). See note 20 for disclosure of performed impairment tests.

Assessment of provisions
Klarna Holding AB's subsidiary Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. See note 30 for provisions.

Note 3 Risk management

General
Risk is defined as the possibility of a negative deviation from an expected financial outcome. The Klarna Group is through its business activities subject to a number of different risks, the main ones being credit risk, market risk, liquidity risk and operational risk. Other risks include concentration risk, business risk, strategic risk, reputational risk and remuneration risk.

Klarna has a risk appetite framework in place, set by the Board, which is supported by limits for specific risk areas. The Board and Management also issue written policies and instructions for managing all identified risks, which are complemented by detailed routine descriptions within the organisation.

The purpose of risk management is to safeguard Klarna's long term survival, manage volatility in financial performance, and increase value for the owners by ensuring efficient capital management. The basis for the risk management and internal control framework is the three lines of defense model. The first line of defense refers to all risk management activities carried out by line management and staff. All accountable leads are fully responsible for the risks, and the management of these, within their respective area of responsibility.

The second line of defense refers to Klarna's independent Risk Control and Compliance Functions, which report directly to the CEO and the Board. To ensure independence, these functions are not involved in business operations.

Risk Control has the responsibility to monitor, control, analyse and report risks in Klarna's business.

The Compliance function is responsible for supporting the business and management in compliance matters and for assisting in identifying, follow-up and reporting on compliance risks, which refers to the risk of Klarna not complying with external and internal rules.

Furthermore, the Risk Control and Compliance Functions are responsible for promoting a sound risk and compliance culture across the business by helping to ensure quality, integrity and ethical practices within the business.

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.

The Audit, Compliance and Risk Committee of the Board has the specific responsibility to discuss, steer and monitor these issues and prepare for decisions by the full Board of Directors. For details on the Board of Directors, please see note 9.

The text, figures and tables below are for the Klarna Group. However, the business activities and risks are mainly related to the subsidiary Klarna Bank AB (publ).

Credit risk
Credit risk is the risk that Klarna realises a loss due to not having its receivables repaid, either due to a counterpart's inability or unwillingness to fulfill its obligations. Klarna is mainly exposed to credit risk from four sources;

1. Lending to individual consumers/members of the public/companies who choose to buy using Klarna payment products
2. Exposure to merchants defaulting/bankruptcy who Klarna partner with and process payments for
3. Directly lending to merchants through the Klarna Boost Program
4. Exposure to credit institutions as well as investments in financial assets like treasury bills.

Klarna is exposed to credit risk in the following regions:

- Nordics (Sweden, Norway, Finland, Denmark)
- DACH (Germany, Austria, Switzerland)
- Netherlands
- United Kingdom
- United States

Klarna's credit risk management is executed by various domains, with the required standards ensured and managed through the Analytics competence. Once the appetite limits are defined by the Board of Directors and executive management, these domains provide support with specialisation in risk systems, data science and modelling, fraud management, compliance and legal management.

In order to mitigate the credit risk from individual consumers Klarna uses proprietary scoring models to perform an applicant's credit assessment. Model inputs consist of a number of purchase related data points, such as purchase amount and the specific merchant from which the purchase is made. This is combined with historical internal customer payment and credit behavior history and external information, to produce the scoring models. Due to differences in local legislation, the availability of external credit rating data and local customer behaviors, models tend to be specific to each country where Klarna conducts business. Loans advanced to customers are a blend of flexible revolving credit options where customers pay at their own pace, with a defined minimum monthly payment, where fixed part payment offerings varying between 3 and 48 months, and short term invoice receivables with a weighted lifetime of between 10 and 30 days.

Customer repayment performances as well as expected losses given by Klarna's underwriting models are continuously monitored and risk appetite for respective product and commercial region is adjusted based on the development of the risk profile of the portfolio, as well as based on commercial considerations. The short average credit duration makes it possible to respond swiftly and effectively whenever the environment changes by changing credit approval criteria. In addition to the scoring models, manual and automated processes are in place to detect potential fraudulent behavior and credit abuse.

Klarna's reporting of end customer credit risks focuses on both internal metrics such as pay rates, delinquency rates and provisions as well as total loss rates experienced on the portfolio over time. Management and the Board receive reporting on Credit Risk on a regular basis.

Klarna's underwriting and credit granting policies are defined based on regional and product risk appetite assessment – approved by the Management and the Board of Directors. These are monitored regularly by teams in finance and product domains under the supervision of Risk Control.

The total lending credit exposure amounts to SEK 22,700,843k (15,123,097), out of which SEK 19,979,002k (13,874,164) is lent to the public and SEK 2,721,841k (1,248,933) is lent to credit institutions. For credit exposure to the public and credit institutions Klarna makes provisions to cover for expected losses.

Credit risk

Amounts in SEKk	**31 Dec 2018**	**31 Dec 2017**
Loan receivables, gross	23,641,114	15,788,424
Allowance for credit losses	-940,271	-665,327
Loan receivables, net carrying amount	22,700,843	15,123,097
Of which: Loans to credit institutions	*2,721,841*	*1,248,933*
Of which: Loans to the public	*19,979,002*	*13,874,164*

The carrying amount of the financial assets reflects the maximum exposure to credit risk.

Credit risk concentrations

The following table shows Klarna's credit risk exposure and its significant credit risk concentrations as of December 31, 2018:

Amounts in SEKk

Gross amounts	Stage 1	Stage 2	Stage 3	POCI	Total
Per region					
Sweden & Denmark	6,926,863	1,215,924	299,894	-	**8,442,681**
DACH	5,750,736	1,513,010	373,698	14,517	**7,651,961**
Norway	1,429,190	396,957	92,622	-	**1,918,769**
Other	4,929,952	429,090	268,661	-	**5,627,703**
Total	**19,036,741**	**3,554,981**	**1,034,875**	**14,517**	**23,641,114**
Before due and per days past due					
Before due	16,837,452	2,302,460	97,059	-	**19,236,971**
≤30 days	2,191,821	591,940	125,144	-	**2,908,905**
>30-60 days	2,255	408,955	52,793	-	**464,003**
>60-90 days	1,453	195,037	35,649	-	**232,139**
>90 days	3,760	56,589	724,230	14,517	**799,096**
Total	**19,036,741**	**3,554,981**	**1,034,875**	**14,517**	**23,641,114**

Loans to the public past due, not impaired, 2017	≤30 days	>30-60 days	>60-90 days	Total
Group	1,989,373	353,071	120,814	**2,463,258**

Loans to the public, 2017

				Aging, current outstanding balance in % of total volume			
Recognition quarter	**Total volume (principal, fees)**	**Settled (paid, written off, sold)**	**Currently outstanding, gross**	**7-29 days**	**30-59 days**	**60-89 days**	**>90 days**
Prior to 2016	103,027,048	102,389,906	637,142	0.00%	0.01%	0.01%	0.15%
2016-03	12,208,864	12,036,536	172,328	0.00%	0.06%	0.04%	0.11%
2016-06	13,963,768	13,708,966	254,802	0.00%	0.09%	0.06%	0.15%
2016-09	13,630,248	13,298,161	332,086	0.00%	0.12%	0.08%	0.22%
2016-12	18,575,338	18,024,808	550,530	0.00%	0.20%	0.13%	0.34%
2017-03	16,571,285	15,896,739	674,546	0.00%	0.24%	0.15%	0.40%
2017-06	20,330,183	19,172,191	1,157,992	0.00%	0.42%	0.27%	0.74%
2017-09	20,050,877	18,238,410	1,812,467	0.06%	0.79%	0.78%	0.99%
2017-12	21,937,587	12,989,988	8,947,598	7.83%	2.49%	0.58%	0.12%
Total			**14,539,491**				

For additional information on allowances on Loans to the public, please see note 18.

The merchants that offer Klarna's payment services also carry a credit risk for Klarna. If a merchant closes down or becomes insolvent, there is a risk that Klarna will be unable to offset any subsequent returns from consumers – which Klarna guarantees on behalf of the consumers - against payments due from Klarna to the merchant or indemnities. Klarna assesses this risk to be limited, based on the low probability of a credit event taking place in combination with a significant exposure volume, but is working proactively with tracking, controlling and mitigating such merchant credit risks. Merchant credit risk is mitigated using a longer payment delay on settlement payments towards merchants. Klarna has a Merchant Risk Monitoring function that, among other tasks, assesses merchants' credit worthiness before they are onboarded to Klarna. The function also manually tracks the financial status of Klarna's largest merchant credit risks. Merchant credit risk assessments use external credit bureau data and internal data. If a merchant credit risk is deemed too high, counter measures are taken to ensure that cooperation can continue under modified and acceptable term.

Klarna is also exposed to credit risk through its investments in debt securities held for liquidity management purposes. The risk of these investments is however mitigated by only investing in debt securities issued by governments or supranationals with at least a rating of AA by Standard & Poor's, by Swedish municipalities or the Swedish central bank ("Riksbanken").

Credit quality of debt securities

Amounts in SEKk	31 Dec 2018	31 Dec 2017
Chargeable central bank treasury bills		
AAA[1]	1,668,839	797,118
AA+[1]	1,415,475	605,719
AA[1]	-	344,835
Unrated[1]	-	100,033
Total	**3,084,314**	**1,847,705**

[1]According to rating from Standard & Poor's.

The monitoring of all defined tolerance limits for credit risk is reported at least quarterly to the Board of Directors by the Risk Control function. Any limit breaches are escalated immediately.

Klarna uses the standardised method for calculating capital requirements for credit risk. See note 39 Capital adequacy for details of the calculation of credit risks.

For financial instruments measured at fair value through profit or loss, the carrying amount represents the maximum exposure to credit risk.

Market risk
Market risk is defined as the risk that the value of or expected future cash flow from Klarna's assets and liabilities will move as a result of changes in market conditions.

Klarna only invests in financial instruments for liquidity management purposes, and not with a speculative purpose. The nature of Klarna's business implies that there is no exposure to commodity or equity risk. Interest and currency risk however exists as part of the business. The management of these risks is further described in the sections below.

Interest rate risk
Interest rate risk is defined as the risk of decreased market values of Klarna's fixed-rate interest-bearing assets due to changes in interest rates (value risk), or the risk of net interest return being negatively affected by changes in general interest rates (earnings risk).

Interest rate risk is related to any mismatch between interest bearing assets and liabilities. Klarna's overall objective is to ensure that any changes in interest rates on its funding can be matched by changes in interest rates on its lending. To allow this, all agreements with merchants and end-customers have, to the extent possible according to regulations, adjustable interest rates.

Klarna's lending is concentrated to short maturities. The funding is also primarily of short maturity, through retail deposits and bank credit facilities. See the table for funding sources under the section for Liquidity risk and note 36 for a maturity analysis of Klarna's liabilities.

Klarna monitors and manages interest rate risk based on internal limits set by the Board. To comply with the internal limits Klarna can adjust rates on its lending or enter into hedging instruments such as interest rate swaps. Klarna calculates and monitors interest rate risk on a continuous basis. As of December 31, 2018, Klarna had not entered into any financial instruments to mitigate interest rate risk.

A parallel shift in market interest rates of 200 bps implies an absolute interest risk of SEK 182,707k (77,484) given discounting of future cash flow at the risk free interest rate for each significant currency. This effect corresponds to 3.77% (1.83) of equity.

The Group's interest income amounted to SEK 2,033,517k (1,591,015) and interest expenses amounted to SEK 232,015k (138,704) which results in net interest income of SEK 1,801,502k (1,452,311).

Currency risk
Currency risk is the risk that arises from the change in the price of one currency against another. The Group is exposed to two different types of currency risks, translation risk and transaction risk.

Klarna is exposed to translation risk on group level. Translation risks primarily arise as a result of revaluation of balance sheet items nominated in currencies other than Klarna's reporting currency. Translation risks are monitored and currently not hedged but managed with foreign exchange spot transactions.

Klarna is exposed to transaction risks which primarily arise when Klarna Bank AB (publ) grants credit in currencies other than the reporting currency. The risk is mitigated by matching the lending assets with liabilities in the same currency, either by matching foreign currency assets with foreign currency loans or by entering into foreign exchange contracts. Lending in a currency other than the functional currency has been continuously increasing during 2018, as a result of growth in markets outside Sweden. Lending in foreign currencies is expected to continue to grow during 2019. During 2018, exchange rate loss related to transaction risk was SEK -1.210k (3,773).

Internal policy limits the fluctuations in exchange rates at Group level to 1.0% of Own Funds, which equals to SEK 34,243k (28,305), in the event of an exchange rate movement of ± 10% in any given day. The Group enters into foreign currency contracts to ensure compliance with this policy if required. Treasury is responsible for the operational management of currency risks which are calculated on a daily basis.

Below is a statement of the currency exposure for each currency at the end of the reporting period in absolute numbers. The exposure is defined as the net balance sheet position in each non-SEK currency.

Currency exposure, Group

December 31, 2018	NOK	EUR	USD	GBP	Other	Absolute exposure
Net position	24,930	196,920	55,707	25,348	25,907	**328,811**
Effect of 10% change versus the foreign currency	-2,493	-19,692	-5,571	-2,535	-2,591	**-32,881**
December 31, 2017						
Net position	23,724	66,884	8,410	460	19,008	**118,486**
Effect of 10% change versus the foreign currency	-2,372	-6,688	-841	-46	-1,901	**-11,849**

A 10% change in the currency exchange rate (SEK) versus all foreign currencies would entail an effect of 31.8% (3.44) on net income and 0.68% (0.28) on equity for the Group.

The follow-up of all defined tolerance limits for market risk is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

Klarna uses the standardised method for calculating capital requirements for market risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its payment obligations on the due date without increasing the cost of meeting its obligations considerably.

The total sum of the Group's liabilities in each category are detailed in the below duration analysis. The Group has four main financing sources: operating liabilities, bank financing, retail deposits and bonds (senior and subordinated). The inherent liquidity risk is managed by striving to match the duration of the assets with the duration of the liabilities. In addition it is mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. The company pledges parts of its receivables as collateral for one of its bank financing. The set-up of the secured bank financing is such that when the receivables are repaid, the Group's bank financing is also automatically reduced. The methods for managing liquidity risk are described in the Risk Policy as well as in separate instructions.

The main liquidity measure is the Liquidity Coverage Ratio, defined in the EU's Commission Delegated Regulation. Klarna has a regulatory requirement to maintain sufficient reserves of liquid assets to support a share (100% as of 31 December 2018) of estimated stressed liquidity outflows over 30 days. Klarna monitors and forecasts its Liquidity Coverage Ratio on a daily basis to ensure that its stock of high quality liquid assets is sufficient to meet the requirements.

The follow-up of all defined tolerance limits for liquidity is reported at least quarterly to the board by the Risk Control function. Any limit breaches are escalated immediately.

Unutilised credit at the end of the reporting period amounted to SEK 3,834,425k (3,653,830).

Funding sources

December 31, 2018	≤3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	21,000	-	-	1,397,054	-	**1,418,054**
Deposits from the public	3,638,149	3,570,337	4,741,655	2,631,628	-	**14,581,769**
Debt securities in issue[1]	283	-	-	-	1,996,622	**1,996,905**
Other liabilities	3,719,530	42	36	1	644	**3,720,253**
Accrued expenses and prepaid income	302,525	64,697	112,195	19,662	-	**499,079**
Subordinated liabilities[1]	2,659	-	-	-	594,901	**597,560**
Total	**7,684,146**	**3,635,076**	**4,853,886**	**4,048,345**	**2,592,167**	**22,813,620**

December 31, 2017	≤3 months	>3 to 6 months	>6 to 12 months	>1-5 years	>5 years	Total
Financial liabilities						
Liabilities to credit institutions	-	-	300,795	96,170	-	**396,965**
Deposits from the public	3,260,670	1,358,686	2,353,890	1,518,408	-	**8,491,654**
Debt securities in issue[1]	492	-	-	1,994,544	-	**1,995,036**
Other liabilities	2,808,094	563	369	1,477	522	**2,811,025**
Accrued expenses and prepaid income	335,325	5,419	7,740	4,656	-	**353,140**
Subordinated liabilities[1]	393	-	-	-	296,728	**297,121**
Total	**6,404,974**	**1,364,668**	**2,662,794**	**3,615,255**	**297,250**	**14,344,941**

[1] Interest is included in the amounts for debt securities in issue and subordinated liabilities.

Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, from people and systems, or from external events. Operational risk includes legal and compliance risks, HR risk and model risk.

The main operational risks that Klarna faces are related to the significant growth of the company. The increase in number of employees, number of transactions and the development of new products means a continuous need for new structures and processes as well as development of systems.

The foundation for Klarna's work with operational risk is a risk assessment and internal control framework describing the main processes and the identified risks. The method to assess operational risks includes mapping all major processes in the business, identifying the main risks in each process, deciding and implementing adequate controls and finally testing of the controls. The Group also has processes in place for incident management, business continuity/crisis management as well as approval of major changes (NPA Process). These methods for managing operational risk are described in the Risk Policy as well as in detailed separate instructions. The risk assessment and internal control framework together with the NPA Process have been enhanced during 2018.

The follow-up of all defined tolerance limits for operational risk (including operational losses aggregated risk exposure, inadequate controls, etc.) is reported at least quarterly to the board by the Risk Control function. The report also includes the status of operational risk management and relevant key risk indicators.

Klarna uses the standardised method for calculating capital requirements for operational risk.

Capital
Klarna's own funds provide the capacity to absorb unexpected losses that are not possible to avoid or mitigate, and ensure that at all points in time a sufficient buffer of financial resources exist to meet obligations to stakeholders. In this way, Klarna's capital functions as a last resort protection against risk.

The Board is responsible for the overall planning of the capital structure. Relevant capital planning contributes to the company being well-equipped to meet a situation that requires further capital, and to provide an adequate buffer when entering new markets. The following factors are taken into consideration:

- the minimum capital required by laws and regulations, including buffers;
- the owners' required rate of return and effective capital management;
- the level of capital required for counterparts to consider Klarna a reliable partner and to provide efficient access to the funding market

Klarna's additional capital required under Pillar II, and the resulting total capital requirement, is assessed through the Group's Internal Capital Adequacy Process and Internal Liquidity Adequacy Assessment Process (ICLAAP). See note 39 for details on Klarna's capital requirement under Pillar I and Pillar II, and on Klarna's capital adequacy.

Klarna's Finance and Risk Control functions monitor capital adequacy on an on-going basis to ensure that capital requirements and board limits on capitalisation are not breached. Any breaches are escalated, and Klarna's Financial Recovery Plan provides executive management with a wide range of actions to deploy in case of capital stress.

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

	2018	2017
Loans to credit institutions	669	300
Loans to the public	2,032,118	1,590,642
Other interest income	730	73
Total	**2,033,517**	**1,591,015**

Note 5 Interest expenses

	2018	2017
Liabilities to credit institutions	-44,179	-28,680
Deposits from the public	-122,067	-78,337
Other interest expenses	-65,769	-31,687
Total	**-232,015**	**-138,704**

All interest expenses are calculated using the effective interest method.

Note 6 Commission income by operating segments

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

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

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

2018	**Sweden & Denmark**	**DACH**	**Norway**	**Other[1]**	**Total**
Commission income	1,072,026	1,925,347	476,034	525,987	**3,999,394**

2017	**Sweden & Denmark**	**DACH**	**Norway**	**Other[1]**	**Total**
Commission income	901,015	1,356,835	362,205	304,136	**2,924,191**

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

The opening balance of receivables connected to commission income amounted to SEK 388m as of January 1, 2018 and the closing balance as of December 31, 2018 amounts to SEK 605m for the Group. These receivables are included in loans to the public, see note 18.

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

Note 7 Commission expenses

	2018	2017
Commission to partners	-328,870	-205,253
Total	**-328,870**	**-205,253**

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

Note 8 Net result from financial transactions

	2018	2017
Realised/non-realised fluctuations in exchange rates	-1,210	3,773
Gains from financial instruments	215	112
Losses from financial instruments	-26,410	-17,469
Impairment of shares in unlisted companies	-	-10,315
Total	**-27,405**	**-23,899**

As of December 31, 2018, Klarna Bank AB (publ) had entered into currency forward contracts with the nominal amount of SEK 1,815,599k (2,369,352).

Interest income from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).

Interest expense from financial instruments not measured at fair value through profit or loss amounts to SEK 0 (0).

Note 9 Employees and personnel costs

	2018	2017
Average number of full-time equivalents	1,713	1,380
Number of men	*1,104*	*884*
Number of women	*609*	*496*
In Sweden	1,089	922
Number of men	*680*	*576*
Number of women	*409*	*346*
In Norway	9	8
Number of men	*7*	*7*
Number of women	*2*	*1*
In Germany	437	277
Number of men	*306*	*185*
Number of women	*131*	*92*
In Netherlands	26	15
Number of men	*18*	*11*
Number of women	*8*	*4*
In Finland	12	7
Number of men	*5*	*4*
Number of women	*7*	*3*
In Israel	15	39
Number of men	*11*	*29*
Number of women	*4*	*10*
In Austria	7	7
Number of men	*3*	*4*
Number of women	*4*	*3*
In United Kingdom	45	31
Number of men	*32*	*23*
Number of women	*13*	*8*
In USA	73	66
Number of men	*42*	*39*
Number of women	*31*	*27*

Salaries, other remuneration and social security expenses

	2018	2017
Salaries and other remuneration amounted to:		
Board and CEO	-9,406	-8,085
Other employees	-1,038,909	-848,910
Total salaries and other remuneration	**-1,048,315**	**-856,995**
Statutory and contractual social security expenses	-413,711	-304,121
whereof pension expenses	*-110,030*	*-81,736*
Total salaries, other remuneration, social security and pension expenses	**-1,462,026**	**-1,161,116**

	31 Dec 2018		31 Dec 2017	
Board members and senior management	**Number at closing day**	**Percentage of men**	**Number at closing day**	**Percentage of men**
Group CEO and other members of senior management	8	88%	9	89%

The percentage of men in the board was 86% (94) at the end of the reporting period.

2018

Salaries and other remuneration to the board and senior management	**Basic salary/fee**	**Variable remuneration**	**Other benefits**	**Pension expenses**	**Total**
Jonathan Kamaluddin, Chairman of the Board	-775	-1,048	-	-	**-1,823**
Niklas Adalberth[1]	-	-	-	-	-
Niklas Savander[1]	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-550	-	-	-	**-550**
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-6,248	-	-3	-782	**-7,033**
Knut Frängsmyr, Deputy CEO	-6,576	-316	-3	-770	**-7,665**
Other members of senior management (6)[2]	-30,668	-2,600	-21	-3,534	**-36,823**
Total	**-44,817**	**-3,964**	**-27**	**-5,086**	**-53,894**

[1] On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

[2] The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

2017

Salaries and other remuneration to the board and senior management	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-633	-389	-	-	**-1,022**
Niklas Adalberth	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Anton Levy[1]	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-500	-	-	-	**-500**
Andrew Young[1]	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-5,787	-	-5	-771	**-6,563**
Knut Frängsmyr, Deputy CEO	-6,433	-316	-7	-825	**-7,581**
Other members of senior management (8)[2]	-23,782	-570	-561	-3,314	**-28,227**
Total	**-37,135**	**-1,275**	**-573**	**-4,910**	**-43,893**

[1] Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.

[2] The number within parentheses refers to the number of individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

Remuneration
The rules on remuneration are found in the Swedish Banking and Financing Act and the Swedish Financial Supervisory Authority's regulations (FFFS 2011:1) regarding remuneration systems in credit institutions, securities companies and fund management companies licensed to conduct discretionary portfolio management (below "the remuneration rules").

In accordance with Part Eight of Regulation (EU) No 575/2013, commonly referred to as the Capital Requirements Regulation (CRR) and the regulations and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2014:12) regarding the disclosure of information on capital adequacy and risk management (below "disclosure rules"), Klarna shall at least annually in its Annual Report and on its website give information on its Remuneration Policy and remuneration systems.

The information below follows the provisions of the disclosure rules.

Klarna Remuneration
Klarna has a remuneration structure that recognises the importance of well-balanced but differentiated remuneration structures, based on business and local market needs, as well as the importance of being consistent with and promoting sound and efficient risk management not encouraging excessive risk-taking and short-term profits or counteracting Klarna's long term interests.

The aim with the remuneration structure is to both support the ability to attract and retain talents in every position as well as support equal and fair treatment, but also to ensure that remuneration in Klarna is aligned with efficient risk management and compliant with existing regulations.

Klarna Remuneration Committee
The Board of Directors has established a Remuneration Committee consisting of two members appointed by the Board. The Remuneration Committee is responsible for preparing and presenting proposals to the Board on remuneration issues. This duty includes proposals regarding the Remuneration Policy and on remuneration to members of the Group Management Team and employees who head any of the control functions. The Remuneration Committee shall also prepare proposals for the Annual General Meeting regarding the remuneration of the members of the Board and the Auditors. Furthermore, the Remuneration Committee shall make a competent and independent evaluation of the Remuneration Policy and Klarna's remuneration system, together with the suitable control function(s) if necessary.

The Remuneration Committee has held two formal meetings in 2018. In addition, it has also handled other matters that have arisen on an ongoing basis through correspondence between the committee members with the formal decisions not covered by its delegation authority being reported to and documented by the Board at the closest following Board meeting.

Remuneration Policy and remuneration risk analysis
Klarna's Board has adopted a Remuneration Policy that is designed to be compatible with and promote sound and effective risk management, counteract exaggerated risk taking and be in line with Klarna's long-term interests. The Remuneration Policy shall be revised when it is necessary, at least annually.

Klarna's Remuneration Policy, remuneration system and list of those staff members whose professional activities have a material impact on Klarna's risk profile (Identified Staff) are assessed annually. The assessment includes an analysis of all risks Klarna is or might be exposed to, including the risks associated with its Remuneration Policy and remuneration structure. In general, Klarna's remuneration system involves low risk compared with large banks and other credit institutions with comprehensive trading and other businesses covered by the remuneration rules. The risk cycle in Klarna's credit business is assessed to be short, which means that any risks materialise within a few months.

Remuneration structure
Klarna applies the following general principles on remuneration:

- Remuneration shall be set on an individual basis, based on experience, competence and performance
- Remuneration shall not be discriminating
- Remuneration shall be competitive, but not counterproductive to Klarna's long term interests and capability to generate positive results throughout a full economic cycle.

The remuneration structure within Klarna comprises fixed remuneration and variable remuneration. As stipulated in the remuneration rules, Klarna ensures that the fixed and variable components are appropriately balanced by seeing to that the fixed remuneration represents a sufficiently large proportion of the employee's total remuneration allowing Klarna the possibility to pay no variable remuneration. This means that Klarna can decide that the variable remuneration, including deferred payment, can be cancelled in part or in whole under certain circumstances, as described below.

Variable remuneration shall amount to maximum 100 percent of an employee's total fixed remuneration for Identified Staff and 200 percent of an employee's total fixed remuneration for other employees, unless otherwise decided by the Board of Directors in exceptional cases.

Variable remuneration should not only take into consideration the employee's and his/her team's result but preferably also Klarna's total result as well as qualitative criteria such as the employee's compliance with internal rules. It should be based on results that are adjusted for current and future risks. Klarna shall ensure that it is entitled to unilaterally decrease or withdraw all or parts of the variable remuneration if the criteria are not met or if Klarna's financial situation deteriorates substantially.

If an Identified Staff member receives variable remuneration exceeding the amount stipulated in the remuneration rules such remuneration would be subject to deferral and retention.

Share-based payments
In certain jurisdictions Klarna offers share-based payments to employees consisting of warrants. The warrants are subject to graded vesting in four (five) annual installments, corresponding to the maximum duration of the programs. No program may be settled in cash by Klarna. In total 400,513 (304,119) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 817.57 (752.99); granted during the year: SEK 963.00 (963.00); forfeited during the year SEK 0 (0); outstanding at the end of the year: SEK 817.57 (770.07). All such warrants have an exercise price between SEK 470 and 1,175 (SEK 470 and 1,175). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-based payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2018 is SEK 7,700k (-522).

Remuneration 2018
Total amount entered as an expense for remuneration to the Group Management team (9 persons[1]) was SEK 52,992k and for Identified Staff (79 persons[1]) this sum was SEK 110,170k, which aggregates to SEK 163,162k. Variable remuneration accounts for SEK 4,386k of the Group Management Team figure paid to 5 of its members and SEK 14,864k of the Identified Staff figure, paid to 21 beneficiaries.

Total amount entered as an expense for remuneration to other employees was SEK 885,153k (703,235).

[1] The number refers to individuals that have received salaries and remuneration during the year, and not necessarily to the number of members at a given point in time.

The below table gives a breakdown of variable remuneration paid and awarded during 2018:

Type of Variable Remuneration	Value of Variable Remuneration (in SEKk)			Number of Beneficiaries		
	Group Management Team	Identified Staff	Total	Group Management Team	Identified Staff	Total
Paid as one off Cash payments (relating to Referral bonuses / Gratifications / Sales commission)	443	9,098	**9,541**	4	15	**19**
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	1,589	-623[3]	**966**	7	36	**43**
Outstanding deferred remuneration	1,237	1,818	**3,055**	3	11	**14**
Deferred remuneration awarded[1]	0	1,732	**1,732**	0	10	**10**
New sign-on bonus paid	2,381	3,702	**6,083**	1	4	**5**
Severance payments paid	0	3,167	**3,167**	0	2	**2**
Severance payments awarded[2]	0	3,167	**3,167**	0	2	**2**

[1] There has been one risk adjustment reduction made to deferred remuneration awards during 2018.
[2] The highest severance payment awarded to a single person was SEK 2,501k.
[3] Negative amounts are due to reversal of costs of share-based remuneration when employees leave the company.

No employees have been remunerated more than EUR 1m.

Note 10 Fees and reimbursement of expenses for auditors

	2018	2017
EY		
Audit engagement	-4,641	-3,746
Audit related services	-682	-950
Tax consultancy	-154	-122
Other services	-826	-5,485
Total	**-6,303**	**-10,303**
BDO		
Audit engagement	-	-286
Total	**-**	**-286**
P.G. Economides & Co Ltd		
Audit engagement	-80	-
Total	**-80**	**-**

Note 11 Operating lease commitments

	2018	2017
Total lease and rental costs during the year	-103,632	-98,833
The future aggregate minimum lease payments under operating leases are as follows:		
No later than 1 year	-105,699	-78,941
Later than 1 year and no later than 5 years	-176,361	-162,115
Later than five years	-35,739	-11,529
Total	**-317,799**	**-252,585**

The leased assets mainly comprise of facilities, vehicles and machinery.

Note 12 Depreciation, amortisation and impairment of intangible and tangible assets

	2018	2017
Amortisation / depreciation		
Intangible assets	-107,345	-97,666
Tangible assets	-35,140	-29,205
Total amortisation / depreciation	**-142,485**	**-126,871**
Impairment		
Intangible assets	-12,261	-73,704
Total impairment	**-12,261**	**-73,704**
Total depreciation, amortisation and impairment of intangible and tangible assets	**-154,746**	**-200,575**

Note 13 Credit losses, net

Loan losses divided by class

	2018	2017
Loans to credit institutions		
Increase in provisions	-39	-
Total	**-39**	-
Loans to the public		
Realised loan losses	-1,135,168	-609,019
Allowances to cover realised loan losses	566,952	196,519
Recoveries on previous realised loan losses	516,086	274,399
Increase in provisions	-1,716,003	-404,721
Reversal of previous provisions	1,057,311	42,104
Total	**-710,822**	**-500,718**
Financial guarantees and commitments		
Increase in provisions	-92,201	-
Reversal of previous provisions	17,495	-
Total	**-74,706**	-
Total credit losses, net	**-785,567**	**-500,718**

Note 14 Taxes

Income tax expense	2018	2017
Current tax		
Tax expense for the year	-95,630	-162,474
Adjustment of tax attributable to previous years	-3,916	-25,237
Total current tax	**-99,546**	**-187,711**
Deferred tax		
Deferred tax regarding temporary differences	44,388	9,616
Total deferred tax	**44,388**	**9,616**
Reported tax expense	**-55,158**	**-178,095**

The effective tax on income deviates from the nominal tax rate due to the following items:

	2018	2017
Income before tax	158,510	522,701
Income tax calculated in accordance with national tax rates regarding income in each country	-55,375	-139,092
Non-taxable revenues	3,754	10,889
Non-deductible expenses	-11,639	-22,419
Standard revenue, tax allocation reserve	-125	-67
Taxable income not booked over profit or loss	-10,808	-1,122
Deductible expenses not booked over profit or loss	21,223	-
Effect of change in tax rate	-891	-1,047
Adjustment of tax attributable to previous years	-1,297	-25,237
Reported tax expense	**-55,158**	**-178,095**
Effective tax rate	**34.8%**	**34.1%**

Deferred tax assets

	2018	2017
The balance comprises temporary differences attributable to:		
Losses carry-forward	37,895	16,248
Allowance for credit losses	368	48
Other	9,245	5,467
Total deferred tax assets	**47,508**	**21,763**

Deferred tax liabilities

	2018	2017
The balance comprises temporary differences attributable to:		
Intangible assets	81,968	94,914
Untaxed reserves	33,729	35,140
Other	1,936	6,222
Total deferred tax liabilities	**117,633**	**136,276**

The Swedish corporate tax rate will decrease from 22% to 21.4% on January 1, 2019 and to 20.6% on January 1, 2021, consequently the deferred tax assets and liabilities for Swedish companies have decreased.

Note 15 Net result from categories of financial instruments

	2018
Financial instruments mandatory measured at fair value through profit or loss	-48,711
Financial assets measured at amortised cost	5,306,792
Financial liabilities measured at amortised cost	-569,727
Foreign exchange gains/losses	21,307
Total	**4,709,661**

	2017
Available for sale assets, realised	-10,315
Financial instruments designated at fair value through profit or loss	-7,952
Financial instruments held for trading	-3,347
Financial assets measured at amortised cost	4,014,415
Financial liabilities measured at amortised cost	-335,255
Foreign exchange gains/losses	-10,059
Total	**3,647,487**

Note 16 Chargeable central bank treasury bills

	31 Dec 2018	31 Dec 2017
Central bank	400,044	-
State and sovereigns	1,333,077	891,775
Municipalities and other public bodies	1,351,193	955,930
Total	**3,084,314**	**1,847,705**
- in SEK	1,751,237	1,206,411
- in EUR	1,127,379	591,273
- in NOK	205,698	50,021

The chargeable central bank treasury bills have a remaining maturity of up to one year. For the fair value amounts see note 33.

Note 17 Loans to credit institutions

	31 Dec 2018	31 Dec 2017
Loans to credit institutions	2,721,841	1,248,933
- in SEK	891,583	330,133
- in EUR	1,290,381	700,252
- in NOK	81,562	70,626
- in USD	157,026	61,732
- in GBP	164,705	33,108
- in other currencies	136,584	53,082

All loans to credit institutions are payable on demand. For the fair value amounts see note 33.

The loss allowance for loans to credit institutions at the end of the reporting period amounts to SEK 39k and was allocated to impairment stage 1. The group has no purchased or originated credit-impaired assets (POCI) related to credit institutions.

Note 18 Loans to the public

	31 Dec 2018	31 Dec 2017
Loans to the public	20,919,234	14,539,491
Allowance for credit losses	-940,232	-665,327
Total loans to the public	**19,979,002**	**13,874,164**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Gross carrying amount as at January 1, 2018[1,2]	**12,045,403**	**1,063,987**	**1,307,735**	**4,911**	**144,951**	**14,566,986**
New assets originated or purchased	53,710,188	36,321	2,125	23,308	1,511,998	**55,283,940**
Assets derecognised or repaid (excl. write-offs)	-45,936,874	-830,093	-299,013	-13,902	-1,376,909	**-48,456,791**
Transfers to stage 1	517,402	-287,330	-230,072	-	-	-
Transfers to stage 2	-3,256,628	3,397,026	-140,398	-	-	-
Transfers to stage 3	-854,915	-106,095	961,010	-	-	-
Amounts written off	-7,174	-20,476	-609,402	-	-1,076	**-638,128**
Other adjustments	97,459	17,088	42,890	201	5,589	**163,227**
Gross carrying amount as at December 31, 2018	**16,314,861**	**3,270,428**	**1,034,875**	**14,517**	**284,553**	**20,919,234**

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Allowance as at January 1, 2018[1,3]	**-317,368**	**-151,576**	**-269,167**	**-2,348**	**-14,911**	**-755,371**
New assets originated or purchased	-870,004	-5,448	-1,499	-17,263	-10,682	**-904,896**
Assets derecognised or repaid (excl. write-offs)	337,173	253,869	115,254	7,826	27,396	**741,518**
Transfers to stage 1	-14,370	10,454	3,916	-	-	-
Transfers to stage 2	116,281	-119,010	2,729	-	-	-
Transfers to stage 3	326,914	28,004	-354,918	-	-	-
Impact on year end ECL from change in credit risk	12,650	-266,871	-498,977	3,708	-34,846	**-784,336**
Changes to models and inputs used for ECL calculations[4]	124,955	79,480	12,459	-	-	**216,894**
Amounts written off	5,518	10,019	551,009	-	406	**566,952**
Other adjustments	-8,412	-1,499	-11,301	0	219	**-20,993**
Allowance as at December 31, 2018	**-286,664**	**-162,578**	**-450,495**	**-8,077**	**-32,418**	**-940,232**

[1] The table shows month over month movements.

[2] The opening balances for the gross carrying amounts have been restated due to the implementation of IFRS 15.

[3] The opening balances for allowances have been restated due to the implementation of IFRS 9.

[4] This line shows the effect of the implementation of the new impairment model.

Allowance as at January 1, 2017	**-437,101**
Acquisition of subsidiaries	-53,370
Provisions excl. interest and fees, net	-177,097
Provisions for interest and fees, net[1]	5,422
Foreign exchange effect	-3,181
Allowance as at December 31, 2017	**-665,327**

[1] Provisions for interest and fees are included in interest income in the income statement.

All loans and receivables are collectively assessed for impairment. For the fair value amounts see note 33.

Note 19 Loans and impairment

The information below shows disclosures for 2017 on loans and impairment.

	31 Dec 2017
Loans, not impaired	**15,315,092**
Credit institutions	1,248,933
Public	14,066,159
Loans, impaired	**473,332**
Public	473,332
Loans before allowances	**15,788,424**
Allowances for collectively assessed loans, not impaired	**-358,611**
Public	-358,611
Allowances for collectively assessed loans, impaired	**-306,716**
Public	-306,716
Allowances	**-665,327**
Loans, carrying amount	**15,123,097**

	Loans to the public	
	Collectively assessed	Total
Balance as at January 1, 2017	**-437,101**	**-437,101**
Provisions	-404,721	**-404,721**
Reversal of previous provisions	42,104	**42,104**
Changes through the income statement	**-362,617**	**-362,617**
Allowances used to cover realised loan losses	196,519	**196,519**
Translation differences	-62,128	**-62,128**
Balance as at December 31, 2017	**-665,327**	**-665,327**

Note 20 Intangible assets

	Goodwill	Brands	Licenses	Capitalised development expenses	Other intangible assets	Total
Purchase value as at January 1, 2018	**1,275,723**	**78,872**	**50,686**	**485,931**	**353,958**	**2,245,170**
This year's purchase	-	-	13,431	203,849	42,398	**259,678**
This year's sales/disposals	-	-	-3,152	-23,433	-6,992	**-33,577**
Currency translation difference	52,142	3,222	224	4,563	11,691	**71,842**
Purchase value as at December 31, 2018	**1,327,865**	**82,094**	**61,189**	**670,910**	**401,055**	**2,543,113**
Amortisation as at January 1, 2018	**-**	**-656**	**-38,932**	**-269,383**	**-62,085**	**-371,056**
This year's amortisation	-	-2,047	-8,814	-75,436	-21,048	**-107,345**
This year's sales/disposals	-	-	3,152	15,987	2,452	**21,591**
Reclassification	-	-	-	-157	2,544	**2,387**
Currency translation difference	-	-27	-159	-5,203	-916	**-6,305**
Amortisation as at December 31, 2018	**-**	**-2,730**	**-44,753**	**-334,192**	**-79,053**	**-460,728**
Write-down as at January 1, 2018	**-**	**-72,970**	**-**	**-72**	**-**	**-73,042**
This year's write-down	-	-	-	-7,721	-4,540	**-12,261**
This year's sales/disposals	-	-	-	7,446	4,540	**11,986**
Currency translation difference	-	-2,981	-	-3	-	**-2,984**
Write-down as at December 31, 2018	**-**	**-75,951**	**-**	**-350**	**-**	**-76,301**
Carrying amount as at December 31, 2018	**1,327,865**	**3,413**	**16,436**	**336,368**	**322,002**	**2,006,084**

	Goodwill	Brands	Licenses	Capitalised development expenses	Other intangible assets	Total
Purchase value as at January 1, 2017	**898,455**	**70,805**	**38,774**	**358,534**	**102,080**	**1,468,648**
This year's purchase	-	-	9,337	96,693	21,873	**127,903**
Acquisition of subsidiaries	349,778	5,901	2,491	26,209	228,287	**612,666**
Currency translation difference	27,490	2,166	84	4,495	1,718	**35,953**
Purchase value as at December 31, 2017	**1,275,723**	**78,872**	**50,686**	**485,931**	**353,958**	**2,245,170**
Amortisation as at January 1, 2017	**-**	**-**	**-30,882**	**-183,454**	**-42,076**	**-256,412**
This year's amortization	-	-656	-5,985	-75,078	-15,947	**-97,666**
Acquisition of subsidiaries	-	-	-2,016	-11,132	-	**-13,148**
Currency translation difference	-	-	-49	281	-4,061	**-3,829**
Amortisation as at December 31, 2017	**-**	**-656**	**-38,932**	**-269,383**	**-62,085**	**-371,056**
Write-down as at January 1, 2017	**-**	**-**	**-**	**-**	**-**	**-**
This year's write-down	-	-73,631	-	-73	-	**-73,704**
Currency translation difference	-	661	-	1	-	**662**
Write-down as at December 31, 2017	**-**	**-72,970**	**-**	**-72**	**-**	**-73,042**
Carrying amount as at December 31, 2017	**1,275,723**	**5,246**	**11,754**	**216,476**	**291,873**	**1,801,072**

Goodwill is allocated to the following cash-generating units:	31 Dec 2018	31 Dec 2017
Klarna Bank AB (publ), originated from Analyzd Technologies Ltd.	10,594	10,152
BillPay GmbH	364,054	349,766
Sofort GmbH	953,217	915,805
Total	**1,327,865**	**1,275,723**

Impairment testing of goodwill and intangible assets with an indefinite useful life
Goodwill and other intangible assets with indefinite useful life are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or cash generating unit, where the value in use is determined as the present value of expected future cash flows.

The Group's recognised goodwill and intangible assets with an indefinite useful life is attributable to the acquisitions of Sofort GmbH, Analyzd Technologies Ltd., and BillPay GmbH. For the goodwill related to Analyzd Technologies Ltd., the cash-generating unit is Klarna Bank AB (publ). The goodwill from the acquisition of Analyzd Technologies Ltd. was mainly attributable to its subsidiary Klarna Ltd. Israel. During 2018 a decision was made to close down Klarna Ltd. Israel. Therefore, the resources were distributed to other Klarna companies. These companies are highly integrated with Klarna Bank AB (publ) and receive their revenues from transfer pricing agreements within the Group. Therefore, the cash-generating unit is Klarna Bank AB (publ). For the goodwill related to the acquisitions of Sofort GmbH and BillPay GmbH, the cash-generating unit is the operating segment DACH.

Expected future cash flows for the cash generating units are based on forecasts for the first 3-5 years. The most important factors for the impairment test are the growth rate of revenues, gross margin, the growth rate of indirect costs and the level of the discount rate. These parameters are based on internal assessments of the cash generating units' development. A long term growth rate is applied for years after the first 3-5-year period. The long term growth rate used in the cash flow forecast for 2018 is 2% (2). The expected cash flows have been discounted to present value using a discount rate that is based on the risk-free interest rate and a company specific risk adjustment. The discount rate used for 2018 was 8.9% (10.5) before tax. The results of the impairment test showed that the recoverable amount is larger than the carrying amount with a good margin and that there was consequently no need for an impairment charge. A sensitivity analysis has been performed with changes in the most important factors of the impairment test. The result of the sensitivity analysis did not indicate any need of impairment charge. The impairment test was performed in Q4 2018.

There were no other intangible assets in the reporting period with an indefinite useful life.

Note 21 Tangible assets

	Investments in rented facilities	Equipment	Total
Purchase value as at January 1, 2018	**4,879**	**178,240**	**183,119**
Opening balance purchase value adjustment	-	-378	**-378**
This year's purchase	24,019	29,471	**53,490**
This year's sales/disposals	-71	-45,971	**-46,042**
Currency translation difference	439	2,386	**2,825**
Purchase value as at December 31, 2018	**29,266**	**163,748**	**193,014**
Depreciation as at January 1, 2018	**-2,325**	**-118,950**	**-121,275**
Opening balance depreciation adjustment	-	378	**378**
This year's depreciation	-1,154	-33,986	**-35,140**
This year's sales/disposals	46	45,146	**45,192**
Currency translation difference	-240	-1,327	**-1,567**
Depreciation as at December 31, 2018	**-3,673**	**-108,739**	**-112,412**
Carrying amount as at December 31, 2018	**25,593**	**55,009**	**80,602**

	Investments in rented facilities	Equipment	Total
Purchase value as at January 1, 2017	**7,364**	**137,948**	**145,312**
This year's purchase	-	32,779	**32,779**
Acquisition of subsidiaries	-	5,665	**5,665**
This year's sales/disposals	-	-14	**-14**
Reclassification	-1,787	1,774	**-13**
Currency translation difference	-698	88	**-610**
Purchase value as at December 31, 2017	**4,879**	**178,240**	**183,119**
Depreciation as at January 1, 2017	**-1,041**	**-89,446**	**-90,487**
This year's depreciation	-1,017	-28,188	**-29,205**
Acquisition of subsidiaries	-	-1,526	**-1,526**
This year's sales/disposals	-	11	**11**
Reclassification	-407	420	**13**
Currency translation difference	140	-221	**-81**
Depreciation as at December 31, 2017	**-2,325**	**-118,950**	**-121,275**
Carrying amount as at December 31, 2017	**2,554**	**59,290**	**61,844**

Note 22 Other assets

	31 Dec 2018	31 Dec 2017
Current tax assets	31,515	6,781
VAT receivables	24,114	10,732
Derivatives[1]	24,074	29,908
Other receivables	29,499	49,392
Total	**109,202**	**96,813**

[1] For more information on derivatives, see note 23.

For the fair value amounts see note 33.

Note 23 Derivatives

Derivatives held for trading

December 31, 2018	**Fair value**		
Foreign exchange derivatives	**Positive**	**Negative**	**Total nominal amount**
Currency forwards	24,074	-14,947	1,815,599
Total	**24,074**	**-14,947**	**1,815,599**

December 31, 2017	**Fair value**		
Foreign exchange derivatives	**Positive**	**Negative**	**Total nominal amount**
Currency forwards	29,918	-10	2,369,352
Total	**29,918**	**-10**	**2,369,352**

Note 24 Prepaid expenses and accrued income

	31 Dec 2018	31 Dec 2017
Accrued interest	1,095	980
Accrued other income	8,010	1,577
Prepaid rent	16,510	14,426
Prepaid insurance	1,518	1,210
Prepaid licenses	39,774	28,355
Other prepaid expenses	78,932	25,921
Total	**145,839**	**72,469**

For the fair value amounts see note 33.

Note 25 Liabilities to credit institutions

	31 Dec 2018	31 Dec 2017
Liabilities to credit institutions	1,418,054	396,965
- in SEK	438,741	96,170
- in EUR	-	-
- in USD	179,839	-
- in NOK	790,505	300,795
- in other currencies	8,969	-
Total	1,418,054	396,965

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 26 Deposits from the public

	31 Dec 2018	31 Dec 2017
Private individuals	13,825,440	7,847,312
Companies	756,329	644,342
Total	**14,581,769**	**8,491,654**
By currency		
- in SEK	4,423,930	3,617,770
- in EUR	9,988,255	4,865,337
- in USD	2,560	921
- in other currencies	167,024	7,626
Total	**14,581,769**	**8,491,654**

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 27 Debt securities in issue

	31 Dec 2018	31 Dec 2017
Senior unsecured bond	1,996,905	1,995,036
Total	**1,996,905**	**1,995,036**

In September 2017, Klarna Bank AB (publ) issued SEK 2,000m of senior unsecured notes. The notes have a maturity of 3 years and pay interest on a quarterly basis. They were listed on Nasdaq Stockholm in December 2017.

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 28 Other liabilities

	31 Dec 2018	31 Dec 2017
Accounts payable	24,457	135,012
Personnel related taxes	33,388	28,102
Current tax liabilities	125,529	108,498
Liabilities to merchants	3,645,134	2,673,200
Derivatives	14,947	-
Other liabilities	43,570	10,288
Total	**3,887,025**	**2,955,100**

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 29 Accrued expenses and prepaid income

	31 Dec 2018	31 Dec 2017
Accrued personnel related expenses	193,587	136,515
Accrued commissions to partners	51,839	37,295
Accrued interest	56,118	31,179
Accrued expenses for outsourced functions	38,633	24,237
Accrued expenses for consultants	28,752	14,369
Accrued distribution costs	16,712	16,413
Accrued scoring costs	17,176	17,159
Other accrued expenses	103,972	79,953
Other prepaid income	26,472	24,589
Total	**533,261**	**381,709**

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 30 Provisions

	Restructuring reserve	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2018	-	**105,443**	**22,179**	**1,791**	**129,413**
Adjustment of opening balance	-	-	-22,179	-	**-22,179**
New provisions	23,273	133,949	-	60	**157,282**
Amounts used	-11,508	-70,193	-	-	**-81,701**
Unused amounts, reversed	-10,681	-	-	-	**-10,681**
Reclassifications	-	776	-	-776	-
Other adjustments	-	42	-	73	**115**
Provisions as at December 31, 2018	**1,084**	**170,017**	-	**1,148**	**172,249**

Provisions for financial guarantees and commitments

	Stage 1	Stage 2	Stage 3	Total
Provisions as at January 1, 2018	**14,225**	**4,061**	**1,963**	**20,250**
New provisions	83,023	4,127	45	**87,195**
Reversed provisions	-24,036	-5,303	-17,108	**-46,447**
Transfers to stage 1	2,343	-2,322	-21	-
Transfers to stage 2	-14,557	14,562	-5	-
Transfers to stage 3	-4,036	-11,261	15,297	-
Impact on year end ECL from change in credit risk	1,160	721	3,124	**5,005**
Other adjustments	1,045	157	134	**1,336**
Provisions as at December 31, 2018	**59,167**	**4,742**	**3,429**	**67,339**

	Restructuring reserve	Pending legal issues and tax litigations	Commitments and guarantees	Other provisions	Total
Provisions as at January 1, 2017	-	**139,479**	**1,000**	**781**	**141,260**
New provisions	-	65,565	10,694	986	**77,245**
Acquisitions of subsidiaries	-	-	11,485	-	**11,485**
Amounts used	-	-99,632	-	-	**-99,632**
Unused amounts, reversed	-	-	-1,000	-	**-1,000**
Other adjustments	-	31	-	24	**55**
Provisions as at December 31, 2017	-	**105,443**	**22,179**	**1,791**	**129,413**

The total provisions at the end of the year 2018 including the provisions for financial guarantees and commitments amount to SEK 239,588k. At end of the year 2017 the total provisions amounted to SEK 129,413k.

The restructuring reserve relates to the closure of the Tel Aviv office in Israel.

Klarna Bank AB (publ) has provisioned SEK 168m (104), net of payments, for 2014-2018 as a consequence of tax assessments made by the Swedish Tax Agency on how Klarna Bank AB (publ) handles VAT. Klarna Bank AB (publ) is disputing the assessments; however the provisioning represents a likely outcome. Of the provisions, prior to payments, SEK 232m is related to 2014-2017 and SEK 134m to 2018.

On February 20, 2018, the Administrative Court ruled in the above mentioned tax assessments case concerning 2014-2015. The Administrative Court gave Klarna right in some of the claims but rejected a majority. Klarna Bank AB (publ) has appealed to the Administrative Court of Appeal. The overall assessment concludes that the current provision does not need to be adjusted for the above outcome.

Note 31 Subordinated liabilities

	31 Dec 2018	31 Dec 2017
Subordinated note, nominal value	600,000	300,000
Transaction expenses	-5,099	-3,272
Accrued interest	2,659	393
Total	**597,560**	**297,121**

In June 2016 Klarna Bank AB (publ) issued subordinated Tier 2 notes of SEK 300m. Additional SEK 300m of subordinated Tier 2 notes were issued in July 2018. The subordinated notes have original maturity of 10 years with a call option of the issuer after 5 years. The interest is paid on a quarterly basis.

For the fair value amounts see note 33. For maturity analysis of financial liabilities, see note 36.

Note 32 Pledged assets and contingent liabilities

	31 Dec 2018	31 Dec 2017
Pledged assets		
Assets pledged for own liabilities		
Pledged loans and receivables	6,645,083	5,393,252
Other pledged assets	9,474	8,200
Total pledged assets	**6,654,557**	**5,401,452**
Contingent liabilities and commitments		
Contingent liabilities		
Guarantees	523,952	349,167
Commitments	4,463,600	706,407
Total contingent liabilities and commitments	**4,987,552**	**1,055,574**

The group continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 417,741k (96,170) at December 31, 2018.

Note 33 Financial assets and liabilities at fair value

	31 Dec 2018			31 Dec 2017		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Cash and balances with central banks	331	331	-	36	36	-
Chargeable central bank treasury bills [1]	3,083,849	3,084,314	-465	1,847,705	1,847,705	-
Loans to credit institutions	2,721,841	2,721,841	-	1,248,933	1,248,933	-
Loans to the public	19,979,002	19,979,002	-	13,874,164	13,874,164	-
Other shares and participations	41,217	41,217	-	-	-	-
Other assets	29,499	29,499	-	49,392	49,392	-
Other assets (Currency forwards)	24,074	24,074	-	29,908	29,908	-
Prepaid expenses and accrued income	9,094	9,094	-	2,543	2,543	-
Total	**25,888,907**	**25,889,372**	**-465**	**17,052,681**	**17,052,681**	-

	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Liabilities						
Liabilities to credit institutions	1,418,054	1,418,054	-	396,965	396,965	-
Deposits from the public	14,533,365	14,581,769	-48,404	8,436,250	8,491,654	-55,404
Debt securities in issue	2,005,971	1,996,905	9,066	2,231,000	1,995,036	235,964
Other liabilities	3,705,306	3,705,306	-	2,811,025	2,811,025	-
Other liabilities (Currency forwards)	14,947	14,947	-	-	-	-
Accrued expenses and prepaid income	499,079	499,079	-	353,140	353,140	-
Subordinated liabilities	607,374	597,560	9,814	316,875	297,121	19,754
Total	**22,784,096**	**22,813,620**	**-29,524**	**14,545,255**	**14,344,941**	**200,314**

[1] Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.

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

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

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

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

Note 34 Classification of financial assets and liabilities into valuation categories

December 31, 2018	Mandatory at fair value through profit or loss	Amortised cost	Non-financial assets	Total
Assets				
Cash and balances with central banks	-	331	-	**331**
Chargeable central bank treasury bills [1]	-	3,084,314	-	**3,084,314**
Loans to credit institutions	-	2,721,841	-	**2,721,841**
Loans to the public	-	19,979,002	-	**19,979,002**
Other shares and participations	41,217	-	-	**41,217**
Intangible assets	-	-	2,006,084	**2,006,084**
Tangible assets	-	-	80,602	**80,602**
Deferred tax assets	-	-	47,508	**47,508**
Other assets	24,074	29,499	55,629	**109,202**
Prepaid expenses and accrued income	-	9,094	136,745	**145,839**
Total	**65,291**	**25,824,081**	**2,326,568**	**28,215,940**

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

[1] Chargeable central bank treasury bills are under IFRS 9 classified as amortised cost instead of fair value through profit or loss.

December 31, 2017	Measured at fair value through profit or loss				
	Designated at fair value through profit or loss	Held for trading	Loans and receivables	Non-financial assets	Total
Assets					
Cash and balances with central banks	-	-	36	-	**36**
Chargeable central bank treasury bills	1,847,705	-	-	-	**1,847,705**
Loans to credit institutions	-	-	1,248,933	-	**1,248,933**
Loans to the public	-	-	13,874,164	-	**13,874,164**
Intangible assets	-	-	-	1,801,072	**1,801,072**
Tangible assets	-	-	-	61,844	**61,844**
Deferred tax assets	-	-	-	21,763	**21,763**
Other assets	-	29,908	49,392	17,513	**96,813**
Prepaid expenses and accrued income [1]	-	-	2,543	69,926	**72,469**
Total	**1,847,705**	**29,908**	**15,175,068**	**1,972,118**	**19,024,799**

December 31, 2017	Other financial liabilities	Non-financial liabilities	Total
Liabilities			
Liabilities to credit institutions	396,965	-	**396,965**
Deposits from the public	8,491,654	-	**8,491,654**
Debt securities in issue	1,995,036	-	**1,995,036**
Deferred tax liabilities	-	136,276	**136,276**
Other liabilities	2,811,025	144,075	**2,955,100**
Accrued expenses and prepaid income [2]	353,140	28,569	**381,709**
Provisions	-	129,413	**129,413**
Subordinated liabilities	297,121	-	**297,121**
Total	**14,344,941**	**438,333**	**14,783,274**

[1] Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 2,543k from Non-financial assets to Loans and receivables. The reclassification has no impact on the valuation of the financial assets and liabilities.

[2] Due to the implementation of new accounting standards a new assessment has been made of the classification of financial assets and liabilities. It resulted in a reclassification of SEK 121 212k from Non-financial liabilities to Other financial liabilities. The reclassification has no impact on the valuation of the financial assets and liabilities.

The following table shows the Group's financial assets and liabilities measured at fair value at December 31, 2018, divided into the three valuation levels. For description of the fair value levels, see Accounting and valuation principles, section 11. No transfers between levels have been made during 2017 and 2018.

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Other shares and participations	-	-	41,217	**41,217**
Other assets (Currency forwards)	-	24,074	-	**24,074**
Total assets	**-**	**24,074**	**41,217**	**65,291**
Financial liabilities				
Other liabilities (Currency forwards)	-	14,947	-	**14,947**
Total liabilities	**-**	**14,947**	**-**	**14,947**

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Chargeable central bank treasury bills	1,847,705	-	-	**1,847,705**
Other assets (Currency forwards)	-	29,908	-	**29,908**
Total assets	**1,847,705**	**29,908**	**-**	**1,877,613**
Financial liabilities				
Other liabilities (Currency forwards)	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**

Note 35 Transitional disclosures - classification of financial assets and liabilities

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of January 1, 2018 is, as follows:

	IAS 39		Reclass-	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount	ification	ECL	Other	Amount	Category
Assets							
Cash and balances with central banks	L&R	36	-	-	-	36	AC
Chargeable central bank treasury bills [1]	FVPL design.	1,847,705	-	-	-	1,847,705	AC
Loans to credit institutions	L&R	1,248,933	-	-	-	1,248,933	AC
Loans to the public [2]	L&R	13,874,164	-	-90,044	27,496	13,811,616	AC
Other assets	L&R	49,392	-	-	-	49,392	AC
Other assets (Currency forwards)	FVPL	29,908	-	-	-	29,908	FVPL
Prepaid expenses and accrued income	L&R	2,543	-	-	-	2,543	AC
Non-financial assets [3]	-	1,972,118	-	-	12,820	1,984,938	-
Total		**19,024,799**	-	**-90,044**	**40,316**	**18,975,071**	

	IAS 39		Reclass-	Remeasurement		IFRS 9	
January 1, 2018	Category	Amount	ification	ECL	Other	Amount	Category
Liabilities							
Liabilities to credit institutions	AC	396,965	-	-	-	396,965	AC
Deposits from the public	AC	8,491,654	-	-	-	8,491,654	AC
Debt securities in issue	AC	1,995,036	-	-	-	1,995,036	AC
Other liabilities	AC	2,811,025	-	-	-	2,811,025	AC
Accrued expenses and prepaid income	AC	353,140	-	-	-	353,140	AC
Subordinated liabilities	AC	297,121	-	-	-	297,121	AC
Non-financial liabilities [4]	-	438,333	-	-1,929	-	436,404	-
Total		**14,783,274**	-	**-1,929**	-	**14,781,345**	

[1] The fair value of the chargeable central bank treasury bills at period end amounts to SEK 3,084,314k. If these assets would not have been reclassified a loss in fair value of SEK 1,715k would have been reported for the period. The effective interest rate on the date of initial application was -0.7% and the net interest expense recognised for the period amounted to SEK 2,180k.

[2] The remeasurement in column "Other" is the effect of change in principles for revenue recognition as a result of implementing IFRS 15.

[3] The remeasurement is attributable to change in tax receivable resulting from the tax effect from the change in the ECL reserve and the change in revenue recognition.

[4] The remeasurement is attributable to provisions for financial guarantees and commitments.

Note 36 Maturity analysis for financial liabilities

Contractual undiscounted cash flows	Note	31 Dec 2018 Expected to be recovered or settled: Within 12 months	After 12 months	Total	31 Dec 2017 Expected to be recovered or settled: Within 12 months	After 12 months	Total
Liabilities to credit institutions	25	21,000	1,415,884	**1,436,884**	300,795	96,170	**396,965**
Deposits from the public	26	12,045,307	2,701,481	**14,746,788**	7,026,793	1,554,795	**8,581,588**
Debt securities in issue	27	25,531	2,019,378	**2,044,909**	17,946	2,031,467	**2,049,413**
Other liabilities	28	3,719,608	645	**3,720,253**	2,809,026	1,999	**2,811,025**
Accrued expenses and prepaid income	29	479,416	19,663	**499,079**	348,484	4,656	**353,140**
Subordinated liabilities	31	23,131	774,975	**798,106**	11,963	389,771	**401,734**
Total		**16,313,993**	**6,932,026**	**23,246,019**	**10,515,007**	**4,078,858**	**14,593,865**

Note 37 Interest received and paid

	2018	2017
Interest payments received	1,927,845	1,536,379
Interest expenses paid	-281,920	-159,215

Note 38 Information on related parties

The following are defined as related parties: all companies within the Klarna Group, shareholders in Klarna Holding AB with significant influence, board members of Klarna Holding AB 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 current remuneration to the CEO, board of directors and other key personnel.

See note 9 for transactions with the Board and the CEO.

Note 39 Capital adequacy and leverage ratio

Capital adequacy regulations

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

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

Additional Tier 1 capital

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

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

Subordinated liabilities

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

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

Consolidated situation

The consolidated situation for Klarna consists of all companies in the Klarna Holding Group.

Capital adequacy disclosure

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

IFRS 9 Transitional adjustments

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

Excess subsidiary capital deduction

A re-interpretation of CRR Article 85 and 87, following an opinion published by the European Banking Authority, impacted Tier 1 instruments and Tier 2 instruments. The opinion clarified the application of the limitation rules on eligible capital instruments in the consolidated situation. This means 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, 2018 the capital was reduced by SEK 36m on Klarna Holding Group Tier 1 capital, and SEK 96m on Klarna Holding Group Tier 2 capital.

Own Funds	Consolidated situation		Klarna Bank AB (publ)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	3,166,720	2,980,978	2,857,892	2,857,892
of which: Share capital	1,986	1,967	52,752	52,752
Retained earnings	817,882	541,614	195,463	98,404
Accumulated other comprehensive income (and other reserves)	190,603	124,327	426,517	252,117
Independently reviewed interim profits net of any foreseeable charge or dividend	103,086	344,606	141,824	344,839
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**4,278,291**	**3,991,525**	**3,621,696**	**3,553,252**
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-80	-1,878	-80	-1,878
Intangible assets (net of related tax liability)	-1,924,116	-1,706,264	-401,659	-206,095
IFRS 9 transitional adjustment	98,149	-	107,298	-
Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	**-1,826,047**	**-1,708,142**	**-294,441**	**-207,973**
Common Equity Tier 1 (CET1) capital	**2,452,244**	**2,283,383**	**3,327,255**	**3,345,279**
Tier 1 capital				
Additional Tier 1 (AT1) capital	470,588	250,000	250,000	250,000
Tier 1 capital (T1 = CET1 + AT1)	**2,922,833**	**2,533,383**	**3,577,255**	**3,595,279**
Total capital				
Tier 2 (T2) capital	501,494	297,121	597,560	297,121
Total capital (TC = T1 + T2)	**3,424,327**	**2,830,504**	**4,174,815**	**3,892,400**
Total risk exposure amount	**22,761,017**	**15,553,716**	**24,307,480**	**17,145,425**
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.8%	14.7%	13.7%	19.5%
Tier 1 (as a percentage of total risk exposure amount)	12.8%	16.3%	14.7%	21.0%
Total capital (as a percentage of total risk exposure amount)	15.0%	18.2%	17.2%	22.7%
Institution specific buffer requirement (as a percentage of risk exposure amount)	3.4%	3.4%	3.4%	3.4%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical buffer requirement	0.9%	0.9%	0.9%	0.9%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	2.9%	6.7%	5.8%	11.5%
Amounts below the thresholds for deduction (before risk weighting)				
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)	47,508	21,763	32,313	2,162

[1] Common Equity Tier 1 capital available for use as buffer is defined as Klarna's Common Equity Tier 1 capital ratio, reduced by the Common Equity Tier 1 capital needed to meet regulatory capital requirements (4.5%). Note that in the Annual report 2017, this figure was further reduced with the Institutional specific buffer requirement (3.4%).

Capital requirement and risk exposure amounts	Consolidated situation		Klarna Bank AB (publ)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Risk exposure amount				
Credit risk according to standardised method	17,138,774	11,287,794	18,064,760	12,102,052
Market risk according to standardised method	252,714	112,758	1,367,388	1,252,229
Operative risk according to standardised method	5,369,394	4,153,165	4,875,197	3,791,144
Credit valuation adjustment	135	-	135	-
Total risk exposure amount	**22,761,017**	**15,553,716**	**24,307,480**	**17,145,425**
Exposure amount for credit risk according to the standardised method				
Institutional exposure	602,536	318,727	562,621	229,037
Corporate exposure	1,633,421	375,316	2,402,905	824,038
Retail/household exposure	13,832,012	10,288,748	12,995,775	9,729,498
Exposures in default	691,987	166,615	680,107	153,712
Equity exposure	71,339	-	1,193,604	1,124,283
Other items	307,488	138,388	229,747	41,484
Total credit risk exposure amount	**17,138,773**	**11,287,794**	**18,064,759**	**12,102,052**
Market risk exposure amounts according to standardised method				
Foreign exchange risk	252,714	112,758	1,367,388	1,252,229
Total market risk according to standardised method	**252,714**	**112,758**	**1,367,388**	**1,252,229**
Minimum capital requirement				
Credit risk according to standardised method	1,371,102	903,024	1,445,181	968,164
Market risk according to standardised method	20,217	9,021	109,391	100,178
Operational risk according to standardised method	429,551	332,252	390,016	303,292
Credit valuation adjustment	11	-	11	-
Total minimum capital requirement	**1,820,881**	**1,244,297**	**1,944,599**	**1,371,634**
Leverage ratio				
Tier 1 capital	2,922,833	2,533,383	3,577,255	3,595,279
Total leverage ratio exposure	26,601,364	17,776,515	26,977,302	17,995,040
Leverage ratio	11.0%	14.3%	13.3%	20.0%

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

The assessed required capital is based on the minimum capital requirement, Pillar I, and additional capital required for other risks as determined as part of the ICLAAP, Pillar II. The internally assessed required capital at year-end 2018 (2017) amounted to SEK 2,050,903k (1,466,388) for Klarna Bank AB (publ) and SEK 1,927,186k (1,339,051) for the consolidated situation. Klarna thereby has sufficient capital to cover for required capital under Pillar I and Pillar II.

Note 40 Change in presentation of the income statement

The income statement for the Group has changed presentation in 2018 and comparable figures have been restated. The income statement for 2017 is presented below before and after the changed presentation.

After change in presentation	**2017**
Interest income calculated according to the effective interest rate method	1,591,015
Interest expenses	-138,704
Net interest income	**1,452,311**
Commission income	2,924,191
Commission expenses	-205,253
Net result from financial transactions	-23,899
Other operating income	10,675
Total operating revenues, net	**4,158,025**
General administrative expenses	-2,934,031
Depreciation, amortisation and impairment of intangible and tangible assets	-200,575
Total expenses before credit losses	**-3,134,606**
Operating income before credit losses, net	**1,023,419**
Credit losses, net	-500,718
Operating income	**522,701**
Income tax	-178,095
Net income for the period	**344,606**
Whereof attributable to:	
Shareholders of Klarna Holding AB	344,606
Total	**344,606**

Before change in presentation	2017
Interest income calculated according to the effective interest rate method	1,591,015
Commission income	2,924,191
Other operating income	10,675
Total operating revenues	**4,525,881**
Interest expenses	-138,704
Commission expenses	-205,253
Net result from financial transactions	-23,899
General administrative expenses	-2,934,031
Depreciation, amortisation and impairment of intangible and tangible assets	-200,575
Credit losses, net	-500,718
Total operating expenses	**-4,003,180**
Operating income	**522,701**
Income tax	-178,095
Net income for the year	**344,606**
Whereof attributable to:	
Shareholders of Klarna Holding AB	344,606
Total	**344,606**

Note 41 Business combinations

Accounting policies
In connection with a business combination, the Group's acquisition cost is established through a purchase price allocation. In the analysis, the fair value of the identifiable assets and the assumed liabilities is determined.

For business combinations where the cost exceeds the net carrying amount of the acquired identifiable assets and the assumed liabilities, the difference is reported as goodwill in the balance sheet.

The purchase price allocation identifies assets and liabilities that are not reported in the acquired company, such as trademarks and customer contracts. Identified intangible assets that have been identified when making the purchase price allocation are amortised over the estimated useful life. Goodwill and strong trademarks are considered to have an indefinite useful life and are therefore tested annually for impairment, or whenever there is any indication of impairment. Consideration that is contingent upon the outcome of future events is valued at fair value and the change in value is recognised in the income statement. The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

Klarna's acquisition of BillPay
On September 13, 2017, Klarna SPV GmbH, an indirectly owned subsidiary of Klarna Bank AB (publ), acquired 100 percent of the German company BillPay GmbH. BillPay is licensed by the German Federal Financial Supervisory Authority (BaFin) to offer money transmission services under the Payment Services Supervision Act (ZAG). BillPay is a leading online payment provider. The consideration amounted to SEK 579,985k and was paid fully in cash. In the purchase price allocation, goodwill amounts to SEK 339,506k. The goodwill recognised for the acquisition corresponds to the complementary strengths of the two companies in the field of payment solutions. The goodwill recognised is not expected to be deductible for income tax purposes.

BillPay	Purchase Price Allocation
Intangible assets	242,415
Tangible assets	4,017
Lending to the public	272,563
Deferred tax assets	18,284
Other assets	13,005
Cash and cash equivalents	179,661
Provisions	-11,149
Deferred tax liabilities	-72,129
Other liabilities	-406,188
Net identifiable assets and liabilities	**240,479**
Consolidated goodwill	339,506
Consideration	**579,985**

Transaction related costs amounted to SEK 14,175k and derive from external legal fees and due diligence expenses. The costs have been included in the item General administrative expenses in the Group's consolidated income statement. For the period from the acquisition date of September 13, 2017 until December 31, 2017, BillPay contributed with total operating revenues of SEK 80,987k and net income of SEK 7,583k to the Group's result. If the acquisition had occurred on January 1, 2017, management estimates that consolidated total operating revenues for the Klarna Group would have increased by additional SEK 164,127k and consolidated net income for the full year would have increased by additional SEK 11,893k.

Note 42 Significant events after the end of the reporting period

On September 13, 2018, the subsidiary Klarna Bank AB (publ) entered into an agreement to acquire the operations of Close Brother Retail Finance from Close Brothers Group plc. The acquisition was consummated on January 1, 2019. The consideration amounted to SEK 980m and was paid in cash. In the preliminary purchase price allocation, which is based on Klarna's accounting policies, SEK 998m is recognised as loans to the public, net. The gross amount is SEK 1,032m. Other assets and liabilities related to the loan portfolio are also part of the agreement. The acquisition aims to significantly strengthen Klarna's position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.

On January 1, 2019, Klarna Bank AB (publ) established a branch in the United Kingdom under the name Klarna Bank AB UK Branch. On the same day the branch became operational following a transfer of the business from Klarna UK Ltd.

On March 15, 2019, the company resolved to issue up to 650,746 shares. At the time of signing this report the process was ongoing. Registration of the new shares is expected to occur during April 2019.

No other significant events occurred after the closing date.

Income Statement, Parent Company

Amounts in SEKk	Note	2018	2017
Income from group companies	4,9	472,382	1,300
Administrative expenses	5,6	-2,094	-1,264
Operating income		**470,288**	**36**
Other interest income		129	1
Financial expenses		-434	-22
Income after financial items		**469,983**	**15**
Appropriations	7	116	-
Income tax	8	-	-8
Net income for the year		**470,099**	**7**

Statement of Comprehensive Income, Parent Company

Net income for the year	470,099	7
Total comprehensive income for the year	470,099	7

Balance Sheet, Parent Company

Amounts in SEKk	Note	31 Dec 2018	31 Dec 2017
Assets			
Non-current assets			
Shares and participations in group companies	10	3,278,391	2,857,892
Receivables	11	179,499	-
Total non-current assets		**3,457,890**	**2,857,892**
Current assets			
Receivables	11	169,499	171,397
Cash and bank balances		354,159	37,155
Total current assets		**523,658**	**208,552**
Total assets		**3,981,548**	**3,066,444**
Equity			
Share capital		1,986	1,967
Additional Tier 1 instruments		256,370	-
Retained earnings		3,251,772	3,063,822
Net income for the year		470,099	7
Total equity		**3,980,227**	**3,065,796**
Liabilities			
Untaxed reserves	12	-	116
Current liabilities			
Other liabilities		643	-
Accrued expenses and prepaid income	13	678	532
Total current liabilities		**1,321**	**532**
Total equity and liabilities		**3,981,548**	**3,066,444**

Statement of Changes in Equity, Parent Company

Amounts in SEKk	Restricted equity Share capital	Non-restricted equity Additional Tier 1 instruments	Retained earnings	Net income	Total equity
Balance at January 1, 2018	**1,967**	**-**	**3,063,822**	**7**	**3,065,796**
Transfer of previous year's net income	-	-	7	-7	-
Net income for the year	*-*	*-*	*-*	*470,099*	***470,099***
Total comprehensive income for the year	**-**	**-**	**-**	**470,099**	**470,099**
New share issue	19	-	185,840	-	**185,859**
Share warrants	-	-	-117	-	**-117**
Share-based payments	-	-	7,700	-	**7,700**
Additional Tier 1 instruments	-	256,370	-5,480	-	**250,890**
Balance at December 31, 2018	**1,986**	**256,370**	**3,251,772**	**470,099**	**3,980,227**
Balance at January 1, 2017	**1,879**	**-**	**2,250,973**	**84**	**2,252,936**
Transfer of previous year's net income	-	-	84	-84	-
Net income for the year	*-*	*-*	*-*	*7*	***7***
Total comprehensive income for the year	**-**	**-**	**-**	**7**	**7**
New share issue	88	-	813,460	-	**813,548**
Share warrants	-	-	-173	-	**-173**
Share-based payments	-	-	-522	-	**-522**
Balance at December 31, 2017	**1,967**	**-**	**3,063,822**	**7**	**3,065,796**

Share capital: 19,860,100 shares (19,667,100), quota value 0.1 (0.1)

Cash Flow Statement, Parent Company

Amounts in SEKk	Note	2018	2017
Operating activities			
Operating income		470,288	36
Financial items, net	15	-	-21
Adjustments for non-cash items in operating activities			
Result from divestment of shares in group companies		-470,098	-
Group contribution, not received		-2,284	-1,300
Taxes paid		-1	-2,828
Changes in the assets and liabilities of operating activities			
Change in other assets and liabilities		-166,839	7,271
Cash flow from operating activities[1]		**-168,934**	**3,158**
Investing activities			
Investments in subsidiaries	10	-50	-779,419
Divestment of shares in subsidiaries		49,650	-
Cash flow from investing activities		**49,600**	**-779,419**
Financing activities			
New share issue		185,859	813,549
Share warrants		-117	-173
Additional Tier 1 instruments		250,890	-
Cash flow from financing activities		**436,632**	**813,376**
Cash flow for the year		**317,298**	**37,115**
Cash and cash equivalents at the beginning of year		**37,155**	**40**
Cash flow for the year		317,298	37,115
Exchange rate diff. in cash & cash equivalents		-294	-
Cash and cash equivalents at the end of year		**354,159**	**37,155**
Cash and cash equivalents include the following items			
Cash and bank balances		354,159	37,155
Cash and cash equivalents		**354,159**	**37,155**

[1]Cash flow from operating activities includes interest payments received and interest expenses paid. See note 15.

Notes, Parent Company

Notes 1-3 in the Group apply to the Parent Company as well, with the exception that the Parent Company has chosen not to adopt IFRS 9 "*Financial instruments*" which is in accordance with the Swedish accounting recommendation, RFR 2, amended by the Swedish Financial Reporting Board.

Note 4 Income from group companies

	2018	2017
Result from divestment of shares in group companies	470,098	-
Group contribution received from group companies	2,284	1,300
Total	**472,382**	**1,300**

Note 5 Employees and personnel costs

Salaries, other remuneration and social security expenses

	2018	2017
Board and CEO	-1,325	-883
Total salaries and remuneration	**-1,325**	**-883**

Klarna Holding AB has no employees. From May 2017 the basic fee to the board of directors has been accounted for in Klarna Holding AB.

	31 Dec 2018		31 Dec 2017	
Board members and senior management	**Number at closing day**	**Percentage of men**	**Number at closing day**	**Percentage of men**
CEO and other members of senior management	2	100%	1	100%
Board members	7	86%	7	86%

2018

Salaries and remuneration to the board and CEO	**Basic salary/fee**	**Variable remuneration**	**Other benefits**	**Pension expenses**	**Total**
Jonathan Kamaluddin, Chairman of the Board	-775	-1,048	-	-	**-1,823**
Niklas Adalberth[1]	-	-	-	-	-
Niklas Savander[1]	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-550	-	-	-	**-550**
Andrew Young	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-6,248	-	-3	-782	**-7,033**
Knut Frängsmyr, Deputy CEO	-6,576	-316	-3	-770	**-7,665**
Total	**-14,149**	**-1,364**	**-6**	**-1,552**	**-17,071**

[1] On February 22, 2018, the company's director Niklas Adalberth resigned from the board of directors and Niklas Savander was appointed new director.

2017

Salaries and remuneration to the board and CEO	Basic salary/fee	Variable remuneration	Other benefits	Pension expenses	Total
Jonathan Kamaluddin, Chairman of the Board	-633	-389	-	-	**-1,022**
Niklas Adalberth	-	-	-	-	-
Mikael Walther	-	-	-	-	-
Anton Levy[1]	-	-	-	-	-
Michael Moritz	-	-	-	-	-
Sarah McPhee	-500	-	-	-	**-500**
Andrew Young[1]	-	-	-	-	-
Sebastian Siemiatkowski, CEO	-5,787	-	-5	-771	**-6,563**
Total	**-6,920**	**-389**	**-5**	**-771**	**-8,085**

[1] Anton Levy resigned as Board member on December 15, 2017. On the same day Andrew Young was appointed to the board.

Note 6 Expenses by expense type

	2018	2017
Audit fees to EY	-267	-170
Other costs	-1,827	-1,094
Total	**-2,094**	**-1,264**

Note 7 Appropriations

	2018	2017
Change in tax allocation reserve	116	-
Total	**116**	-

Note 8 Income tax expense

	2018	2017
Current tax		
Tax expense for the period	-	-8
Total current tax	**-**	**-8**
Deferred tax	-	-
Reported tax expense	**-**	**-8**

The effective tax on income deviates from the nominal tax rate due to the following items:

	2018	2017
Income before tax	470,099	15
Income tax calculated in accordance with national tax rates regarding income in each country	-103,422	-3
Non-taxable revenues	103,422	-
Non-deductible expenses	-	-5
Reported tax expense	**-**	**-8**
Effective tax rate	**0.0%**	**53.3%**

Note 9 Proposed treatment of unappropriated earnings

The Board and the CEO propose to the Annual General Meeting that the non-restricted equity of SEK 3,978,240,952 on Klarna Holding AB's balance sheet at the disposal of the Annual General Meeting to be carried forward.

Additional Tier 1 instruments	256,369,520	SEK
Retained earnings	3,251,772,915	SEK
Net income for the year	470,098,517	SEK
Total	3,978,240,952	SEK

Note 10 Shares and participations in group companies

	31 Dec 2018	31 Dec 2017
Participations in group companies	3,278,391	2,857,892

Group companies	No. of shares	Share	Book value	Book value
Klarna Bank AB (publ), Sweden, Corp. ID 556737-0431	152,607	97%	2,777,926	2,857,892
Klarna Midco AB, Sweden, Corp. ID 559146-5132	519,706	91%	500,465	-
			3,278,391	**2,857,892**

During 2018 Klarna Holding AB divested shares in Klarna Bank AB (publ) to Klarna Midco AB.

The Klarna Group operates according to a centralised business model where Klarna Bank AB (publ), being the owner of the majority of the Group's assets, risks as well as the strategic and key value driving functions, is the principal (central entrepreneur) of the Group. Klarna Inc. conducts the Group's business on the US market, Sofort GmbH and BillPay GmbH provide online payment solutions complementing Klarna's business. All other companies of the Group are either providers of auxiliary services or pure holding companies.

Note 11 Receivables

	31 Dec 2018	31 Dec 2017
Non-current		
Receivables from group companies	179,499	-
Total	**179,499**	-
Current		
Receivables from group companies	167,601	170,985
Other receivables	1,898	412
Total	**169,499**	**171,397**
Total	**348,998**	**171,397**

Note 12 Untaxed reserves

	31 Dec 2018	31 Dec 2017
Tax allocation reserve 2012	-	116
Total	-	**116**

Note 13 Accrued expenses and prepaid income

	31 Dec 2018	31 Dec 2017
Accrued personnel related expenses	481	333
Audit fees	197	170
Other accrued expenses	-	29
Total	**678**	**532**

Note 14 Contingent liabilities

Klarna Bank AB (publ) continually pledges parts of its Swedish receivables as collateral for liabilities to credit institutions which provides security for the Group's credit facility. The credit liability amounted to SEK 417,741k (96,170) at December 31, 2018. Klarna Holding AB acts as a guarantee for Klarna Bank AB (publ)'s outstanding liability regarding this credit facility.

Note 15 Interest received and paid

	2018	2017
Interest payments received	-	1
Interest expenses paid	-	-22

Note 16 Information on related parties

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

The following transactions have taken place with related parties:

A group contribution of SEK 2,284k has been received from Klarna Bank AB (publ).

Klarna Holding AB has a non-current receivable of SEK 179,499k (0) and current receivable of SEK 167,601k (170,985) from Klarna Bank AB (publ).

See note 5 for transactions with the Board and the CEO.

Definitions & Abbreviations

AC
Amortised cost

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

Common Equity Tier 1 capital
Equity excluding proposed dividend, deferred taxes and intangible assets and certain other regulatory adjustments defined in Regulation (EU) No 575/2013 (CRR) and EU 241/2014

Cost/Revenue Ratio
Total expenses before credit losses divided by total operating revenues, net

Debt/equity ratio
Average liabilities 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

ECL
Expected credit loss

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

FVPL
Fair value through profit or loss

L&R
Loans and receivables

Merchants
Klarna's e-commerce customers are named merchants

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

Pay later
Klarna's invoice product is called Pay later

Pay now
Klarna's product for immediate settlement is called Pay now

POCI
Purchased or originated credit-impaired assets

Return on assets*
Net income for the year (Net income of the last twelve months when calculating half year KPI) as a percentage of average total assets. The calculation of average total assets is based on opening and closing balances for the reporting period

Return on equity*
Operating income for the year (Operating income of the last twelve months when calculating half year KPI) as a percentage of average equity adjusted for untaxed reserves. The calculation of average equity is based on opening and closing balances for the reporting period

Slice it
Klarna's account product is called Slice it

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 and CEO certify that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international reporting standards (IFRS/IAS) referred to in the European parliament and the councils' regulation (EC) 1606/2002, from July 19, 2002, on the application of International Accounting Standards. They give a true and fair view of the Parent Company's and the Group's financial position and result. It is further assured that the report of the Board of Directors gives a true and fair overview of the development of the Parent Company's and Group's business activities, financial position and results of operations as well as describes the material risks and uncertainties that the Parent Company and its subsidiaries are facing.

Stockholm 2019-03-27

Jonathan Kamaluddin
Chairman of the Board

Niklas Savander
Board member

Mikael Walther
Board member

Sarah McPhee
Board member

Andrew Young
Board member

Michael Moritz
Board member

Sebastian Siemiatkowski
CEO

Our audit report was submitted on 2019-04-08
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Building a better working world

Auditor's report

To the general meeting of the shareholders of Klarna Holding AB, corporate identity number 556676-2356

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Klarna Holding AB for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 2-72 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

Building a better working world

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Klarna Holding AB for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 8 April 2019
Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant