

Annual Information about the  
Remuneration System  
2017

**Klarna.**<sup>®</sup>

**Klarna Holding AB**  
(Corp. ID 556676-2356)

## **Introduction**

The rules on remuneration are found in the Swedish Banking and Financing Act and the Swedish Financial Supervision 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 Supervision 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 concerns conditions for the financial group with the parent company Klarna Holding AB as per 31 December 2017 unless otherwise stated. The amounts are stated in thousands of SEK (TSEK) excluding social security contributions unless otherwise stated.

The information below follows the provisions of the disclosure rules and are published on Klarna's website ([www.klarna.com](http://www.klarna.com)).

## **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 2017. In addition, it has also 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 304,119 (280,119) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 752.99 (608.89); granted during the year: SEK 963.00 (970.20); forfeited during the year SEK 0 (400); outstanding at the end of the year: SEK 770.07 (752.98). 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 2017 is SEK-522k (21,346).

### Remuneration 2017

Total amount entered as an expense for remuneration to the Group Management team (10 persons<sup>1</sup>) was SEK 47,187k and for Identified Staff (74 persons<sup>1</sup>) this sum was SEK 106,573k, which aggregates to SEK 153,760k. Variable remuneration accounts for SEK 5,701k of the Group Management Team figure paid to 4 of its members and SEK 10,634k of the Identified Staff figure, paid to 21 beneficiaries.

Total amount entered as an expense for remuneration to other employees was SEK 703,235k (637,920).

<sup>1</sup> 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 2017:

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)	400	5,988	6,388	2	14	16
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	1,891	-1,414	477	2	20	22
Outstanding deferred remuneration	4,923	1,804	6,727	3	6	9
Deferred remuneration awarded <sup>1</sup>	3,323	1,346	4,669	1	2	3
New sign-on bonus paid	0	1,300	1,300	0	2	2
Severance payments paid	0	7,286	7,286	0	7	7
Severance payments awarded <sup>2</sup>	0	7,286	7,286	0	7	7

<sup>1</sup> There has been one risk adjustment reduction made to deferred remuneration awards during 2017.

<sup>2</sup> The highest severance payment awarded to a single person was SEK 3,188k.

No employees have been remunerated more than EUR 1m.