

**Annual Information about the  
Remuneration System  
2016**



**The Klarna Group  
Klarna Holding AB (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 2016 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 recognizes 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 had two formal meetings in 2016. In addition, it has also handled upcoming matters 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 materialize 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.

The remuneration rules defines variable remuneration as "Compensation that is not pre-established to amount or size. Commission-based remuneration, which is not linked to future risk of such commitments which may change the company's income statement or balance sheet, is not considered to be variable remuneration". Based on this definition, it is Klarna's assessment that Klarna's sales commission does not qualify as variable remuneration. Sales commission is offered only to selected employees working in the Klarna sales organization through various commission models. The commission models are consistently evaluated in order to, at all times, reflect its purpose and for them to comply with the business goals of Klarna as a company.

## Share-based payments

In certain jurisdictions Klarna offers share-based payments to employees consisting of warrants. The warrants are subject to 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 280,119 (165,096) warrants are considered share-based payments. The weighted average exercise price is as follows: for warrants outstanding at the beginning of the year: SEK 608.89 (464.42); granted during the year: SEK 970.20 (954); forfeited during the year SEK 400 (470); outstanding at the end of the year: SEK 752.98 (619.08). All such warrants have an exercise price between SEK 470 and 1,175 (SEK 400 and 963). The value of granted warrants has been established using the Black Scholes model.

The total cost of share-base payment is allocated over the duration of warrant programs. The total expense for share-based payments for 2016 is 21,346 (4,576) TSEK.

## Remuneration 2016

Total amounts entered as an expense for remuneration to the Group Management team (9 persons<sup>1</sup>) was 59,609 TSEK and for Identified Staff (58 persons<sup>1</sup>) this sum was 99,741 TSEK, which aggregates to 159,350 TSEK. Variable remuneration accounts for 22,323 TSEK of the Group Management Team figure paid to 5 of its members and 11,533 TSEK of the Identified Staff figure, paid to 18 beneficiaries.

Total amount entered as an expense for remuneration to other employees was 637,920 (537,507) TSEK .

<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 payments during 2016:

Type of Variable Remuneration	Value of Variable Remuneration (in TSEK)			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)	1,333	2,965	4,298	2	17	19
Paid in the form of shares, share-related instruments, financial instruments or non-cash benefits	1,433	8,388	9,821	1	9	10
Outstanding deferred remuneration	2,266	1,776	4,042	3	11	14
Deferred remuneration awarded <sup>1</sup>	1,999	1,236	3,235	2	10	12
New sign-on bonus paid	19,557	180	19,737	3	2	5
Severance payments paid	-	-	-	-	-	-
Severance payments awarded <sup>2</sup>	-	1,769	1,769	-	3	3

<sup>1</sup> There have been no performance adjustment reductions made to these deferred remuneration awards during 2016.

<sup>2</sup> The highest severance payment awarded to a single person was 922 TSEK.

Two employees have been remunerated more than EUR 1 million.