

Klarna.



Corporate Governance Report 2021

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About Klarna

Klarna Bank AB (corporate registration no. 556737-0431) ("Klarna") is a Swedish public limited liability company licensed to carry out banking activities under the supervision of the Swedish Financial Supervisory Authority (SFSA). Klarna is categorized by the SFSA as a category 2 institution and is thus subject to more frequent and granular supervision.¹

Klarna provides its financial services in other EEA countries through passporting its license in accordance with EU directive 2013/36/EU and by establishing local branches. Klarna also offers its financial services outside the EEA through the establishment of local subsidiaries.

About the Corporate Governance Report

Klarna has produced this Corporate Governance Report according to the Swedish Annual Accounts Act (SFS 1995:1554) and has decided to produce a report which is separated from the Annual Report.

Since Klarna's shares are not admitted to trading on a regulated market there is no obligation to comply with the Swedish Corporate Governance Code.

This Corporate Governance Report also includes a section containing the Board's description of internal control and risk management regarding financial reporting.

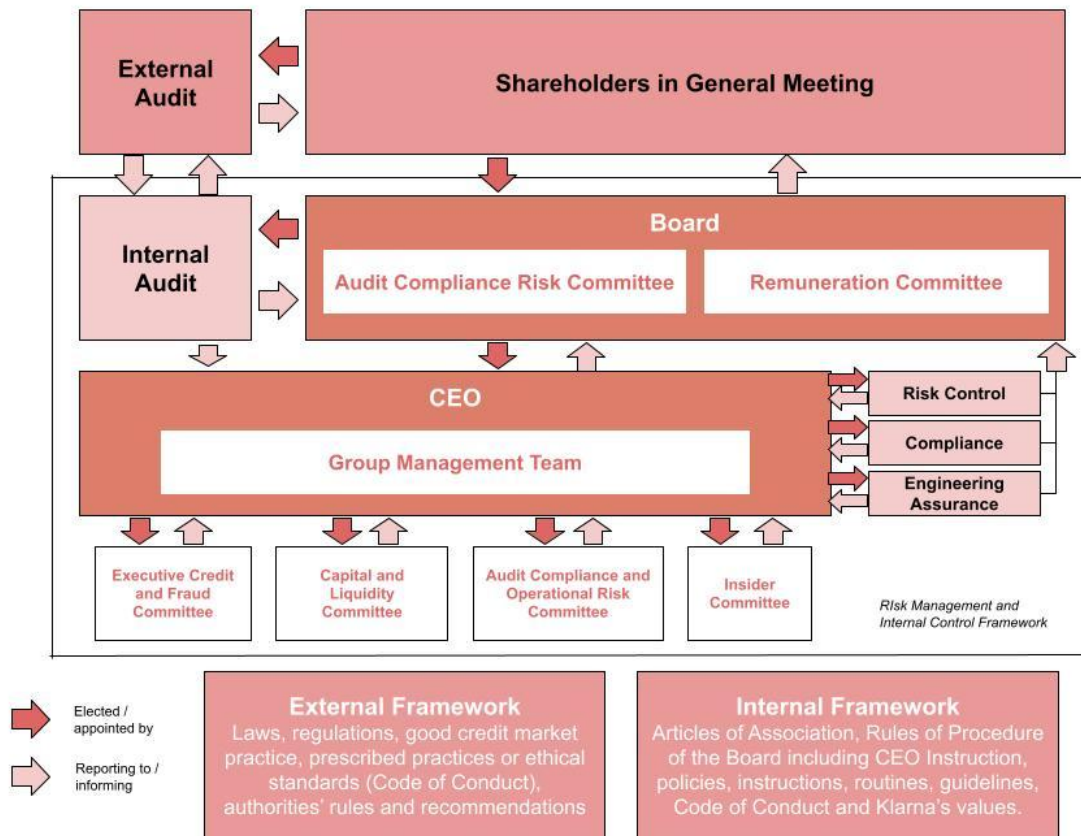
¹ The categorization aims to reflect Klarna's systematic importance and is based on its size, complexity and scope of activities.

Governance

Good corporate governance means ensuring that companies are run sustainably, responsibly and as efficiently as possible. Maintaining the confidence and trust of all our stakeholders is vitally important for Klarna. This chapter describes the key dimensions of Klarna’s corporate governance framework as well as the roles and responsibilities of the various corporate bodies.

Corporate Governance Structure

The corporate governance structure distributes rights and responsibilities between the shareholders, the Board and the CEO according to applicable laws, rules and processes. Well defined reporting lines and distribution of distinct responsibilities are essential. High ethical and professional standards and a sound risk culture is vital. The image below provides a summary of how governance and control are organized at Klarna.



Framework for corporate governance

In addition to general laws, rules and industry practices, Klarna also needs to comply with the detailed regulations specific to banks and payment service providers. These are, inter alia, the Swedish Banking and Financing Business Act (SFS 2004:297) and rules and recommendations issued

by the SFSA with regard to, among other things, capital and liquidity requirements as well as rules on internal governance and control. As Klarna has corporate bonds listed at Nasdaq Stockholm, Klarna also complies with the Rule Book for Issuers of Fixed Income Instruments.

In order to ensure compliance with external regulations Klarna has developed an internal framework which among other things incorporates the external requirements on corporate governance. The internal framework includes, among other things, the Articles of Association, which have been adopted by the Shareholders in the General Meeting. Policies and instructions that have been drawn up to define the division of responsibility within the Klarna are important tools for the Board and the CEO in their governing and controlling roles. Of special importance are the Rules of Procedure for the Board also addressing how to handle conflicts of interest for Board members, the Instructions for the CEO, the Risk Policy, the Credit Policy, the Conflicts of Interest Policy, the Code of Business Conduct, the Anti-Money Laundering and Counter Terrorist Financing Policy, the Remuneration Policy and the Policy for Suitability, Training and Diversity of the Board, Management and Key Function Holders.

Klarna's organization

Klarna's organization is divided into domains, which are constructed to own a subset of the overall offering Klarna provides to its customers. All domains are led by a domain lead who reports to a CXO. Each CXO reports to the CEO and the CEO reports to the Board. There are also four independent control functions outside of the domains: Risk Control, Compliance, Engineering Assurance and Internal Audit. Risk Control, Compliance and Engineering Assurance are all directly subordinated to the CEO and also provide reports to the Board. Internal Audit, which reports directly to the Board, has been outsourced to an external party.

General meeting

The General Meeting is Klarna's highest decision-making body, at which shareholders exercise their voting rights. At the General Meeting, decisions are taken regarding matters such as the annual report, the income statement and balance sheet, dividend, election of the Board of Directors and auditors, and remuneration for Board members and auditors.

Voting rights

All shareholders, registered in the Shareholders' Register and having notified their attendance properly, have the right to participate in the General Meeting and to vote for the full number of their respective shares.

Articles of Association

The articles of association are the overall set of rules for the company which are decided by the shareholders at the General Meeting. The Swedish Companies Act sets certain minimum demands on what information they should contain. The Articles of Association are available at the Swedish Companies Registration Office. Amendments to the Articles of Association are resolved by the General Meeting pursuant to Swedish law and are subject to the approval of the Swedish Financial Supervisory Authority.

Klarna's qualified shareholders

Shareholders with a direct or indirect holding of 10% or more in Klarna are presented in the table below.

Name of shareholder	Percentage of votes and share capital (rounded)
Funds advised by Sequoia Capital	23%
Brightfolk A/S	10%

Mandate to repurchase and convey own shares

The annual general meeting 2021 neither decided on authorisation to acquire nor convey own shares in Klarna. Consequently, the Board of Directors did not have such authorisations in 2021.

The Board

The Board is the highest decision-making body in Klarna's structure for management and control. The Board is responsible for the company's strategy, organization and for the management of the company's operations. The Board also holds the ultimate responsibility for ensuring that Klarna's corporate governance arrangements are adequate and feasible, and that they have been sufficiently implemented throughout the organization. The Board members are elected by the shareholders at the annual general meeting (AGM) for a one-year term of office extending through the next AGM. The external framework does not require Klarna to have a nomination committee. The Board has not adopted a recruitment policy, and in practice Board members are proposed and appointed by the shareholders holding a majority of the votes as well as the capital of the company. The Board has adopted Rules of Procedure that regulate the Board's role and ways of working as well as special instructions for the Board's committees. The Board has overall responsibility for the activities carried out within Klarna and has the following duties, among others:

- deciding on the nature, direction and strategy of the business as well as the framework and objectives of the activities,
- regularly following up and evaluating the operations in relation to the objectives and guidelines established by the Board,
- ensuring that the business is organized in such a way that the accounting, treasury management and financial conditions in all other respects are controlled in a satisfactory manner and that the risks inherent in the business are identified, defined, measured, monitored and controlled in accordance with external and internal framework, including the Articles of Association,
- deciding on major acquisitions and divestments as well as other major investments,
- selecting, monitoring and planning the succession of the Board members,
- appointment or dismissal of the CEO, the Chief Risk Officer, the Chief Compliance Officer and the Chief Information Security Officer,
- deciding on appointment and dismissal of Internal Auditor (outsourcing partner and/or individual)
- deciding on remuneration to the CEO, members of the CXO-team as well as to the heads of the control functions Risk Control and Compliance.

Board members

The Board consists of the following members elected by the Annual General Meeting 2021.

- Michael Moritz, Chair of the Board
- Sebastian Siemiatkowski, CEO
- Sarah Smith
- Mikael Walther
- Lise Kaae
- Omid Kordestani
- Roger W. Ferguson Jr.

The Board member Roger W. Ferguson Jr. was elected on May 20, 2021.

Further information regarding the Board members including their background and experience can be found on our website www.klarna.com/international/corporate-governance/the-board/

The composition of the Board and its committees in 2021 as well as the number of meetings held and the attendance is shown in the table found below under the heading Meetings and attendance.

The Chairman

The Chairman of the Board organizes and leads the work of the Board. According to the Rules of Procedure, the Chairman shall through contact with the CEO follow Klarna's development, ensure that the CEO provides the Board members with the information necessary to be able to assess Klarna's current position, financial plans and future development, and deliberate with the CEO on strategic issues.

Klarna's CEO is also a Board member and participates thereby in all board meetings, except on matters in which the CEO has an interest that may be in conflict with the interests of Klarna, such as when the CEO's work is evaluated. Other members of the CXO-team participate whenever required for purposes of informing the Board or upon request by the Board or the CEO.

The reputation, experience and assignments of the Board and the CEO

The Board members have many years of professional experience from various capacities which are all of relevance for Klarna. The Board comprises solid knowledge and experience e.g. within banking and finance, e-commerce, IT- and technology business, payment cards, capital procurement, risk control, accounting, international sales activities, small and medium sized business, venture capital, entrepreneurship and leadership. The Board composition also meets the need for knowledge and insight regarding the conditions and prerequisites for business in the various geographic markets where Klarna operates. A detailed presentation of the Board members' background and other assignments are found on www.klarna.com/international/corporate-governance/the-board/

Suitability assessment

In order to ensure that the Board, the Board members and the CEO meet the requirements for sufficient knowledge, insight, experience and suitability, Klarna has established a policy for suitability assessment and diversity. The suitability is assessed according to criteria for the person's experience and reputation. The ability of each of the Board members to dedicate the commitment, diligence and time required is also evaluated. The Chief Operating Officer is responsible for the assessment. When a new Board member or a new CEO assumes their duties, they are also externally assessed by the SFSA.

The CEO's performance and knowledge, insight, experience and suitability is evaluated in the corresponding way. According to the Rules of Procedure of the Board, the Board shall ensure that the CEO fulfills his duties. The Board is responsible for appointing and retains the authority to dismiss the CEO of Klarna.

Diversity

The Suitability, Training and Diversity Policy also serves to promote diversity of the Board. According to the policy all board assignments in Klarna are based on merit with the prime consideration being to maintain and enhance the Board's overall effectiveness. Within this, a broad set of qualities and competences is sought for and it is recognised that diversity, including age, gender, geographical

provenance and educational and professional background, is a factor to take into consideration. The ambition is to ensure diversity and that the Board members complement each other to cover expertise that is vital for Klarna. It is Klarna's assessment that these objectives and targets have been achieved.

Number of assignments

There are regulatory limitations on the number of directorships a Board member of a bank may hold. As Klarna is not a significant institution a general assessment of reasonableness of the numbers of positions held by the Board members and the CEO shall be made, taking into consideration the circumstances in the individual cases as well as the nature, scale and complexity of Klarna's business activities. Klarna has concluded that all Board members' assignments are compliant with the regulatory requirements. A detailed presentation of the members' background and other assignments can be found on www.klarna.com/international/corporate-governance/the-board/.

Training

The Board annually adopts a Board training plan and has assigned it to the Compliance Function to plan and carry through the training activities. These shall consist of an introductory program for new Board members; on-going training of individual members and the Board as a whole in matters that have been considered important by the Board itself; and the Board is also provided access to all e-learnings launched by Klarna.

Board committees

The overall responsibility of the Board cannot be delegated. The Board has established separate working committees to assist the Board in preparing matters, belonging to the competence of the Board. The duties of the Board Committees, as well as working procedures, are defined in an internal policy. Each committee regularly reports on its work to the Board. Committee members are appointed by the Board for a period of one year at a time. Klarna has two Board committees: the Remuneration Committee and the Audit, Compliance & Risk Committee.

Remuneration Committee

The Remuneration Committee (Rem Co) 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 CXO-team and employees who head any of the control functions.

The Rem Co 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 Rem Co has handled matters within its responsibility on an ongoing basis through correspondence between the committee members. Any formal decisions not covered by its delegation authority are reported to and documented by the Board at the closest following Board meeting.

Through the oversight of Rem Co. Klarna has established a Remuneration Policy and processes, securing sound remuneration structures throughout the organization. Klarna's Board has adopted a Remuneration Policy, which is revised when it is necessary, at least annually.

Members during 2021:

Omid Kordestani (Chair)
 Michael Moritz
 Sarah Smith

Audit, Compliance & Risk Committee

The Audit, Compliance & Risk Committee (ACRC) is responsible for oversight and preparation of all matters related to audit (internal/external), compliance and risk as well as financial reporting and related internal control arrangements.

ACRC has had 8 meetings in 2021 and has provided regular updates to the Board on matters pertaining to its responsibilities. More information about the number of meetings and attendance can be found below.

Members during 2021:

Sarah Smith (Chair)
 Mikael Walther
 Lise Kaae

Meetings and attendance

The table shows the number of meetings held in 2021 by the Board of Directors and its committees as well as the attendance of the individual Board members:

Year 2021	Board	Audit, Compliance and Risk Committee
Number of meetings	7	8
(of which per capsulam)	(0)	(0)
Meetings attended		
Michael Moritz	7	-
Sebastian Siemiatkowski ²	7	-
Sarah Smith	7	8
Lise Kaae	7	8
Mikael Walther	7	8
Omid Kordestani	7	-

² CEO and Board member

Roger W. Ferguson Jr. ³	5	-
Andrew Young ⁴	2	-

Chief Executive Officer

Klarna's Chief Executive Officer (CEO) is responsible for the day-to-day management of the Group's activities in accordance with the external and internal frameworks. The CEO reports to the Board and submits at each board meeting a report on the performance of the business in relation to decisions made by the Board, among other things. The Board has adopted an instruction for the CEO's work and duties which also regulates the division of responsibilities and the interaction between the CEO and the Board.

The CEO appoints the heads of corporate functions (CXOs) and the heads of the control functions. The Chief Risk Officer and the Chief Compliance Officer appointment and replacement is also approved by the Board.

The CEO is Sebastian Siemiatkowski. If you want to know more about him you find more information on our website:

www.klarna.com/international/corporate-governance/the-board/sebastian-siemiatkowski/.

CXO team

The CEO works together with the CXOs in Klarna's Group Management Team. The CXOs are responsible for matters of common concern to several corporate functions, strategic issues, business plans, financial forecasts and reports.

The CXOs usually meet weekly or when the CEO convenes a meeting.

The CXO Team consists of:

Sebastian Siemiatkowski, CEO
David Fock, Chief Product Officer
Koen Köppen, Chief Technical Officer
Niclas Neglén, Chief Financial Officer
David Sandström, Chief Marketing Officer
Luke Griffiths, Chief Commercial Officer
Linda Höglund, Chief Operating Officer
Camilla Giesecke, Chief Expansion Officer

Management committees

The CEO has, besides the CXO-team, four separate committees at his disposal for the purpose of managing the operations:

³ Roger W. Ferguson Jr. was elected to the Board on 20 May, 2021

⁴ Andrew Young resigned from the Board on 20 May, 2021

Executive Credit and Fraud Committee, which is responsible for reviewing credit risk results and trends as well as steering the company’s overall generation of credit risk.

Capital and Liquidity Committee, which is responsible for assessment and decision within the internal capital assessment process.

Insider Committee, which is responsible for providing the CEO with support on issues concerning Klarna’s day-to-day handling of Inside Information.

Audit Compliance and Operational Risk Committee, is responsible for providing oversight and retaining executive responsibility for all Audit, Compliance and Operational Risk related matters.

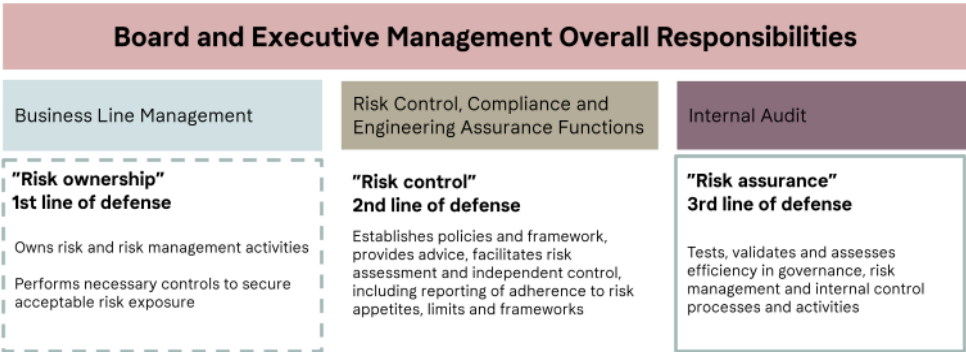
Risk management, risk reporting and control functions

Risk is defined as the possibility of a deviation from an expected outcome. Risk management is central in the Group’s operating model and underpins all activities conducted throughout the organization. The purpose of risk management is to protect Klarna’s long-term survival, manage volatility in the financial performance, promote operational resilience and excellence as well as enable informed decision-making.

The Group’s risk management governance model imposes a risk-aware culture, combining 1st line ownership of risks with 2nd line independent challenge and oversight. Active dialogue across the three lines of defense is key to effective risk management in the Group. The risk strategy is a natural extension of the business model that focuses on identification, monitoring and mitigation of the material risks that Klarna are exposed to.

Risk Governance

The Group operates a financial services industry standard three lines of defense model for risk management and control. The model allocates responsibilities of activities among teams or functions in three independent lines as outlined below



The Group’s Three lines of defense model

The ultimate responsibility for risk management rests with the Board of Directors, which sets Klarna's risk strategy and principles and approves policies. It also oversees and promotes a sound risk culture involving an awareness and understanding of risk across the organization. The Board is supported by the Audit, Compliance and Risk Committee (ACRC) in performing these and related duties.

The Executive Management, consisting of the CEO and the executive team, is responsible for implementing the strategy and principles. It approves instructions based on policies. It is supported by the Audit, Compliance, and Operational Risk Committee (ACORC).

Business Line Management, consisting of Domain and Accountable Leads in the first line of defense, owns and manages risk within their area of responsibility. They approve routines based on instructions and policies that ensure that controls are performed.

The functions Risk Control, Compliance and Engineering Assurance, in the second line of defense, controls risk. More specifically, Risk Control establishes risk frameworks and provides independent advice, analysis and oversight, as well as conducts risk reporting and training for management and staff. Compliance makes sure Klarna adheres to external rules and regulations and reports on regulatory risks. Engineering Assurance is responsible for frameworks, oversight and reporting on Information and Communications Technology (ICT) and security risk management.

Internal Audit, in the third line of defense, provides risk assurance through independent periodic reviews of governance structures and control systems. This includes regular evaluation of Klarna's framework for risk management and a yearly review of the control functions in the second line of defense. Internal audit reports directly to the Board of directors.

Risk Strategy and Appetite

The Group's risk strategy is set out by the Board and outlines the nature of risks that the business is exposed to, its willingness to take these risks and how they are managed. It is formed through Klarna's business plan, established by the executive team and approved by the Board, the Risk Policy, which forms the basis of the Group's risk management framework, the Credit Policy which sets out Klarna's credit strategy and the Group ICLAAP.

The risk appetite framework outlined in the Risk Policy reflects the Group's willingness to take and limit risk. The appetite is set by the Board and reviewed and updated regularly, at least on an annual basis. The annual review is linked to the annual planning process at Klarna, ensuring alignment of the business strategy, planned business activities and the Group's risk exposures.

The Group's risk appetite is defined in the Risk Policy and 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 organization.

The monitoring of all defined limits for the Group's risks is reported at least quarterly to the Board by the Risk Control function. Any limit breaches are escalated in line with the defined escalation process.

Risk reporting

In the Risk Policy the Board has established how and when it shall receive information about Klarna's risks and risk management. The periodic recurring risk reporting in Klarna is designed to provide reliable, current, complete and timely information to the recipients, reflecting the nature of different risk types as well as market developments. The Board, the ACRC, the CEO and the CXOs, as well as other functions that require such information, receive regular reports on the status of risks and risk management.

Klarna's Risk Control and Engineering Assurance functions shall each provide a risk report quarterly, which among other things include a comprehensive and objective presentation of the major risks Klarna faces as well as a follow-up of risk appetite and the level of risk management in order to enable the Board to ensure that Klarna's risk management and control is satisfactory. The Compliance Function shall also provide a report quarterly to the Board which among other things includes Klarna's compliance risks. Any breach of the appetite limits requiring immediate escalation according to the Risk Policy or the Credit Policy shall be reported directly to the CEO, ACRC and the Chairman of the Board or the CEO and the Board, depending on the defined escalation process.

Internal Control of Financial Reporting

Klarna maintains a framework for operational risk management including a process for risk assessment and internal control. Operational risks are assessed at least yearly and controls are put in place to mitigate the risk exposure. These controls are then continuously performed during the year. A risk based testing is performed annually by Risk Control and Compliance. When material issues are identified in the risk assessment or in the control testing these are reported to management and the Board and mitigating actions are implemented. The internal control and risk management regarding financial reporting is integrated in the framework for operational risk management. The above framework is reviewed annually by the Internal Audit Function.

Risk Control

Risk Control serves as the second line of defense, setting the principles and framework for Risk Management and performing independent follow-up. Risk Control shall also promote a sound risk management culture - and in this way enable business - by supporting and educating staff.

Risk Control is equivalent to the Risk Management Function as described in the EBA's guidelines on internal governance, excluding the areas of responsibility for Engineering Assurance as described in the Policy on ICT & Security Risk Management.

The Chief Risk Officer (head of Risk Control), who is appointed by the CEO after approval of the Board, provides reports on the risks on an ongoing basis to the CEO, CXOs, ACRC and the Board.

Compliance

The Compliance team is independent from the business. The Board is ultimately responsible for the internal governance and control and has adopted a Compliance Policy which is updated and approved on an annual basis.

The Compliance team is responsible for supporting the business and management in compliance matters and for assisting in identifying, for following-up and reporting on compliance risks, which refers to the risk of Klarna not complying with external and internal rules. Furthermore, Compliance is responsible for promoting a sound compliance culture across the business by helping to ensure quality, integrity and ethical practices within the business.

The Chief Compliance Officer, who is appointed by the CEO after approval of the Board, provides reports on an ongoing basis to the CEO, CXOs, ACRC and the Board regarding compliance risks and compliance matters.

Engineering Assurance

The Engineering Assurance domain and the Chief Information Security Office (CISO) serve as a second line of defense, and are responsible for managing and overseeing the area of ICT (Information and Communication Technology) & Security risk as a control function. The independence and objectivity of a control function is ensured by maintaining appropriate segregation from the ICT operations processes it controls.

The Board has adopted a Policy on ICT & Security Risk Management. Engineering Assurance shall via the Chief Information Security Officer provide reports to the CEO and the Board.

Internal Audit

Klarna's Internal Audit Function is independent from the business, directly reporting to the Board. The Board has adopted a Policy on Internal Audit.

The responsibility of Internal Audit is to provide reliable and objective assurance to the Board and the CEO regarding the effectiveness of controls, risk management and governance processes by performing independent periodic reviews of the governance structure and the system of internal controls.

The Board has decided to outsource Klarna's Internal Audit Function to an external party and has appointed Deloitte as Internal Auditor. The Risk Control Function is the internal coordinator for the internal audit activities.

The Internal Audit Function regularly provides reports to the Board and ACRC of the results of its audits, including identified risks and suggestions for improvements. Internal Audit also informs the CEO, the CXO-team and the relevant departments on internal audit matters. The Board annually establishes a plan for the internal audit work.

External Audit

Klarna's external auditors are formally elected at the General Meeting on an annual basis in line with Swedish Company law. Ernst & Young AB were re-elected at the 2021 AGM as external auditor for the period up to the 2022 AGM.

The ACRC receives reports from the auditor, which include details of significant internal control matters that they have identified, and meets with the auditor on a regular basis.

The ACRC oversees appropriate procedures to maintain the independence of the external auditor, this includes Klarna's non-audit services policy which sets out those services that the auditor is permitted to provide and the requirements for pre-approval by ACRC in advance of provision of non-audit services.

Klarna.

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Auditor's report on the corporate governance statement

To the general meeting of the shareholders of Klarna Bank AB, corporate identity number 556737-0431

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2021 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's standard RevR 16 *The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act/the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 25 March 2022

Ernst & Young AB

Jesper Nilsson
Authorized Public Accountant