



ESG Report 2017

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About Klarna

Klarna Bank AB (publ) is a registered bank and is under the supervision of the Swedish Financial Supervision Authority (Finansinspektionen). The company's personal data delegate is responsible that personal details are dealt with in accordance with the Swedish Personal Data Protection Act (PUL). Klarna was founded in Sweden in 2005, today we are active in 18 markets and have 1700 employees.

Our purpose at Klarna is to simplify buying. This is done by making buying simpler and safer for consumers and 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 physical stores. Klarna receives revenues from both the merchants and the consumers that use Klarna's payment solutions.

Klarna Business model

Klarna's business model is to simplify payments for both merchants and consumer. Klarna offers a better shopping experience by removing obstacles in the checkout and requires only top of mind information, no lengthy registration process or credit card numbers are needed to complete the purchase. Consumers are offered to shop with three intuitive payment methods; Pay Now, Pay Later and Slice It, giving flexibility in payments with a variety of pay after delivery options and installment plans to the consumer who also gets safeguarded by Klarna's buyers protection. Klarna assumes all the risk for both the consumer and merchant.

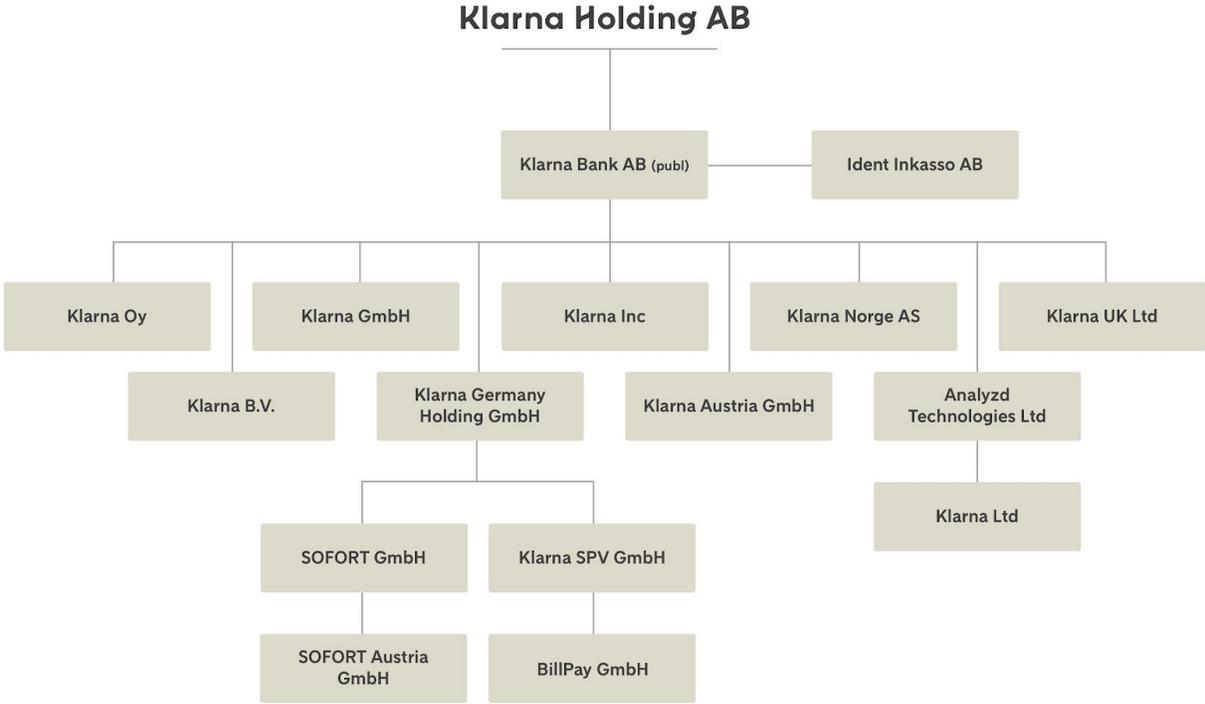
Klarna's value proposition to consumers is to allow them to make safe and simple online purchases and to pay when and how they want. Klarna offers consumers a range of payment options including card payments and direct banking, as well as Klarna's proprietary payment options, which include invoice and sales financing. That way 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, and especially on mobile phones. Klarna's offerings to the merchant include technology, credit risk, customer services and administration. Merchants add the innovative payment solutions from Klarna to their checkout, which are adapted and optimised for local adaptability and can be used in multiple markets with one single integration. While the mobile friendly checkout solution from Klarna maximizes conversion and increases the average order value, all transactions are settled in one single payment allowing the merchant to focus on improving the product offering and sales.

At Klarna, we aim to simplify payments and give customers more control of their money. 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 financial sector and when handling personal data. Maintaining that trust requires 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 to and ensuring all employees are treated with respect and this is secure working environment. In this report, we focus on the pillars of good governance, anti-corruption, sustainability and social impact which are all directly relevant to the integrity of Klarna business operations each day.

Legal structure



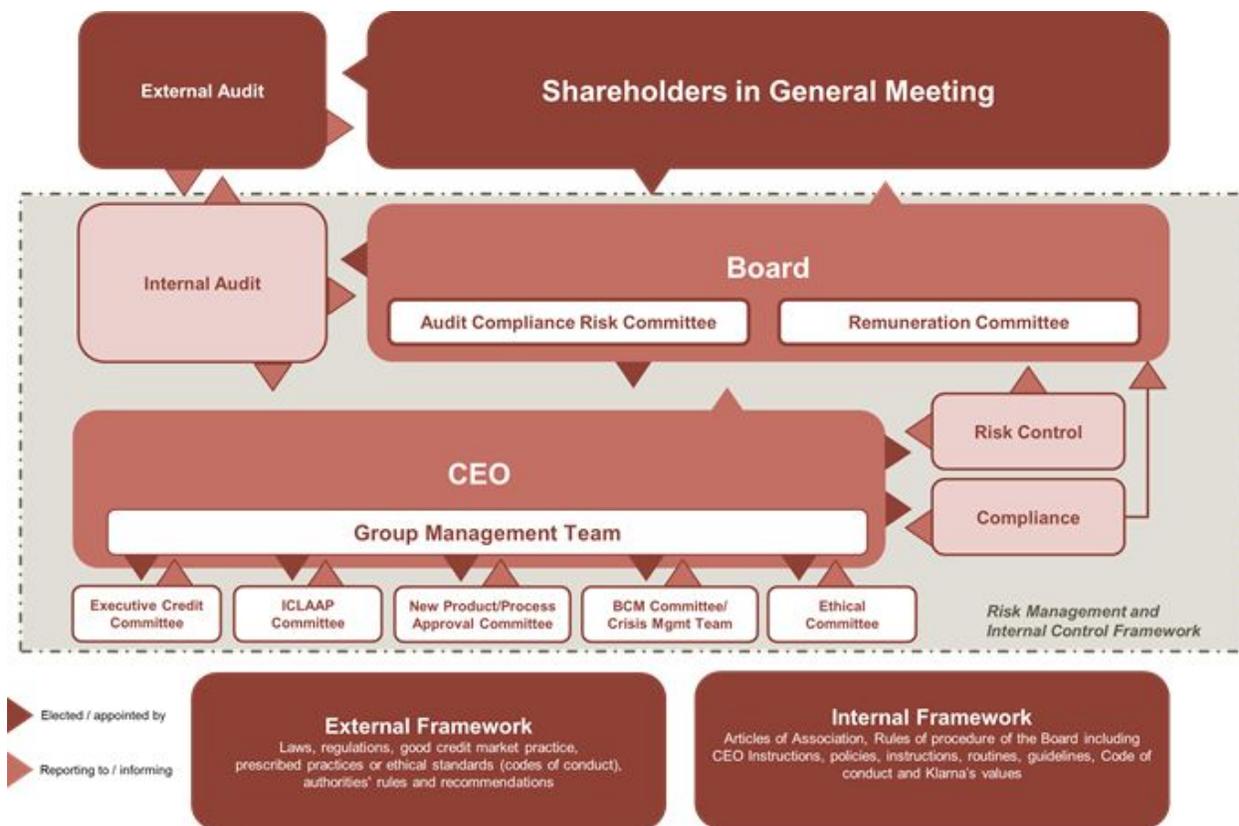
Governance

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 are vitally important for Klarna.

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. If you would like to learn more about this you find more detailed information on our website www.klarna.com/international/corporate-governance/



Regulatory status

Klarna Bank AB (publ) (corporate registration no. 556737-0431) is a Swedish public joint-stock banking (publikt bankaktiebolag) company under the supervision of the Swedish Financial Supervisory Authority (SFSA). You can find more information on our license to provide financial services in the SFSA's register.

Klarna Bank AB (publ) provides its financial services in other EEA countries through passporting its license cross-border according to EU directive 2013/36/EU. You can find more information on Klarna's local website regarding our registration with the respective supervisory authority.

Klarna Bank AB (publ)'s foreign subsidiaries provide sales support to Klarna Bank AB (publ) on the local markets. Klarna Bank AB (publ) is the counterparty in all agreements with merchants and consumers.

In the SFSA annual categorization of supervision, which is done according to the European Banking Authority (EBA) Guidelines on common procedures and methodologies for the supervisory review and evaluation process, Klarna was for 2017 assessed to belong to category 4. In a complementary

qualitative assessment, the SFSA has decided that Klarna will for 2018 instead belong to category 3. The main reasons for the re-categorization is that Klarna manages a large customer base and large transaction volumes. Category 1 entails the highest level of supervision and category 4 the lowest with the purpose to show how the SFSA applies proportionality in its supervision of credit institutions.

Framework for corporate governance

The licensed activity of Klarna, means that, in addition to general laws, rules and industry practices, also complies with the detailed regulations specific to banks and credit market companies, for instance the Swedish Banking and Financing Business Act and rules and recommendations issued by the Swedish Financial Supervisory Authority with regard to, among other things, solvency and capital adequacy, including solvency ratios and liquidity rules as well as rules on internal governance and control, as well as guidelines issued by the European Banking Authority. This is usually called the external framework.

The internal framework includes, among other things, the Articles of Association, which have been adopted by the General Meeting. Policies and instructions that have been drawn up to define the division of responsibility within the Klarna Group 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 a Sustainability Policy which is currently under development.

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 organization and for the management of the company's operations.

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 Bank AB (publ) 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 and the Chief Risk Officer,
- deciding which external party will perform the Internal Audit, and
- deciding on remuneration to the CEO, members of the Group Management 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 2017.

- Jon Kamaluddin, chairman of the Board
- Sebastian Siemiatkowski, CEO and Board member
- Niklas Adalberth
- Sarah McPhee
- Sir Michael Moritz
- Mikael Walther
- Andrew Young (was elected at the extra general meeting on 15 December 2017 replacing Anton J. Levy).

The reputation, experience and assignments of the Board

The Board members have many years of professional experience from various capacities but for Klarna all are relevant areas. The Board comprises of 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 [here](#).

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. When a new Board members or a new CEO assumes their duties, they are also externally assessed by the SFSA.

Diversity

The Suitability 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 recognized 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

Since August 2, 2014 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 new rules. A detailed presentation of the members' background and other assignments can be on here.

Risk management

The purpose of risk management is to safeguard Klarna's long term success, manage volatility in financial performance, and sustainably increase value for the owners by ensuring efficient capital management.

The external framework requires good internal control, identification and management of risks and requirements for internal control functions (Risk Control Function, Compliance Function and Internal Audit Function). The Board has ultimate responsibility for Klarna's risk organization and for ensuring satisfactory internal control. If you would like to learn more about Klarna's risk management, risk reporting and control functions you find more detailed information on our website www.klarna.com/international/corporate-governance/risk-management/

Remuneration

Klarna has clear remuneration policies, instructions and processes, securing sound remuneration structures throughout the organization. If you would like to learn more about Klarna's remuneration structure you find more detailed information on our website www.klarna.com/international/corporate-governance/remuneration/ or in Klarna's annual statements of remuneration for the Klarna Group which are also disclosed on our website www.klarna.com/international/corporate-governance/investor-relations/ according to the Swedish Financial Supervisory Authority's regulatory framework.

Sustainability- Environment

Managing Klarna’s environmental impact is important to the company. Outside of compliance with applicable local environmental laws and regulations in the countries in which Klarna operates, Klarna aims to promote environmental awareness and knowledge in employees and partners.

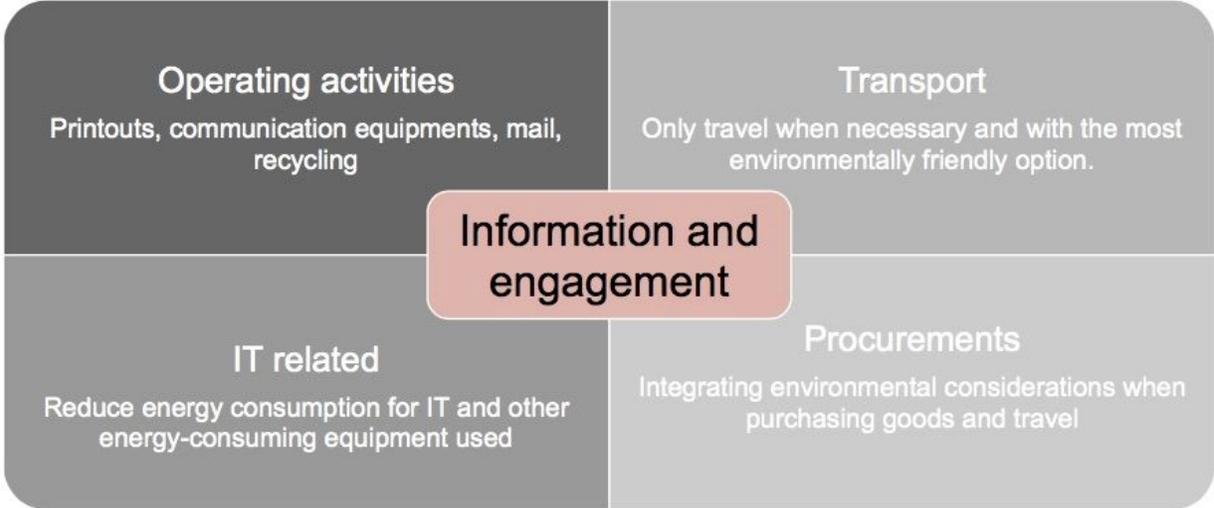
With regard to sustainability policy for Klarna. This report outlines sustainability efforts in the context of day to day operations. While Klarna was granted a bank license in the course of this year, the core product offering of providing payment solutions has not evolved. Klarna does not have a developed corporate banking or corporate financing product offering, where sustainability and supply chain management concerns are most pertinent.

In our Ethical and Environmental Policy we state the following general principles which we work to adhere to:

- We shall have a long term business focus and act in a way that promotes this.
- Klarna shall inform and engage its employees, customers and partners/suppliers in our environmental views and environmental activities.
- We shall of course comply with laws and regulations but also go further by acting in a transparent way, respecting good credit practice, protecting personal data, preventing conflicts of interest, avoiding the denigration of competitors etc.

Klarna shall continuously develop and adapt the features of our solutions and services to improve the environmental performance. The single most important is our printing and mailing. We shall strive towards using electronic messages for example invoices and quotations, as much as possible, as long as our customers like it. Klarna shall before generating printouts consider whether it is necessary to have the material on paper and try to limit the number of copies. The staff shall be encouraged to reduce the use of disposable products that cannot be recycled, for example, unlabeled PET bottles, disposable cups for coffee, etc.

The image below shows the cornerstones of our environmental principles.



Travel

Klarna is a global company, which requires employees to travel on a regular basis. It is not uncommon that an employee reports to a manager based in another country, and as it is important to maintain a close dialogue this is at times best facilitated by physical meetings. For employees that needs to travel Klarna have internal travelling guidelines to decrease the environmental impact when travelling.

Flights

Klarna recommends use of technical equipment at the office instead of travelling for meetings that lasts less than two hours. To make this to an obvious choice Klarna provides employees with several alternatives to select from like Skype, Google Hangouts, video conference system, cell phones, and more. From both a business and an environmental perspective it is necessary and beneficial that Klarna adapts to this way of working. It is even applicable to the Board, which holds every sixth meeting on a distance with participants from Sweden, UK and the US.

Department	Segments	Segment (km)	Mileage	Carbon Emissions (kg)	Dioxide
KLARNA BANK AB (publ)	6014	9 423 971		1 791 564	
KLARNA AS	257	111 070		29 834	
KLARNA AUSTRIA	189	158 496		27 224	
KLARNA B.V.	275	307 138		56 713	
KLARNA GERMANY	2176	1 899 481		344 724	
KLARNA LTD. ISRAEL	429	885 234		147 244	
KLARNA OY	192	91 507		24 415	
KLARNA US	N/A	N/A		451 991	
KLARNA UK LIMITED	572	757 661		130 934	
Total	10 104	13 634 557		3 004 644	

Employees encouraged to green transportation

Employees at Klarna's HQ are encouraged to green transportation. At the HQ office there is a dedicated bicycle parking where employees can safely store their bicycles without risk for theft or damage. Enclosed to the parking there are changing rooms with showers that enable and encourage employees to bike to work even if it is a longer distant. This both decreases Klarna's general environmental footprint and increases the health and wellbeing of employees.

For shorter business travels within Stockholm employees can borrow either Klarna's own bicycles or travel cards to use public transportation. Taxis are not allowed if more eco-friendly alternative means of transportation are available, and employees are encouraged to walk to nearby meeting sites. Klarna also encourage employees to book eco-cars when renting a car if the option is available, and choose train instead of flying if possible.

Pool cars

Klarna Bank AB (publ) Sweden office has two pool cars at disposal for business travels. Klarna employees can also use private cars for business travel and get reimbursed for the mileage.

The calculations below are done with the following assumptions; an average consumption of fuel is 6 liters/100 km. Carbon dioxide emissions from this is assumed 2,94 kg CO₂/liter for gas and energy conversion factor for gasoline applied to 9.06 MWh / m³. Fuel prices adoption for gas is 12,91 SEK/liter.

Total consumption for cars used for business travels are 1 471 liter gas. Total energy flow for transport has been calculated by converting the amount of purchased fuel (pool cars) into energy using the previously mentioned energy conversion factor and by calculating the amount to 19.7 MWh / year. Total amount of energy for transport has been calculated by:

- Calculating the amount of fuel for private cars running on duty using one average consumption and number of kilometers driven as per base for paid kilometers planting.
- Purchased fuel for pool cars according to the basis of Klarna Bank AB (publ).

	Körda km	Snittförbrukning [l/100 km]	Bränslemängd [liter]	Omvandlingsfaktor [MWh/m ³]	Energi [MWh]
Poolbil	-	-	1471	9,06	13,3
Privata bilar	11 805	6	708	9,06	6,4
Total					19,7

Data from 2016

Data for the energy calculations comes from invoiced energy costs, statistics on purchased fuel, and total of private cars used for business purpose. Equivalent carbon dioxide emissions were assumed to 340 grams CO₂ / kWh according to Nordic electricity mix. For fuel 2,94 kg CO₂e / liter for gasoline. The electricity cost has been calculated using an average price, which in turn has been calculated using annual cost and energy consumption. The fuel cost has been calculated adding up invoices based on an average price of 12,91 SEK / liter.

MEDIA, köpt energi	Energi-konsumtion [MWh]	Energi-pris [kr/MWh]	Energi-kostnad [kkr/år]	Specifika CO ₂ -utsläpp [gCO ₂ /kWh]	Totalt CO ₂ -utsläpp [Ton CO ₂ /år]
El	2 122	743	2 437	340	721,5
Bensin	19,7	3 055	60,3	323	6,36

Data from 2016

Below is a chart over the energy consumption and CO2 Emission for all Klarna cars. Both leasing and pool cars are included in each country where we have cars.

Country	N.o. cars	Average energy consumption [MWh]	Average CO2 emissions [tonnes CO2e]
Germany	31	11,2	3,4
Finland	1	19,1	5,7
Israel	2	20,5	6,2
Amsterdam	3	16,7	5,0
Vienna	2	19,1	5,7
Sweden	2	13,3	6,36

Klarna HQ

Heat	84% is renewable and 16% is environmentally compensated
Air condition (cold)	100 % renewable
Electricity	50 % wind power 50 % hydropower

Klarna HQ in Stockholm is the company's biggest office site and as such it has the biggest impact on Klarna Group's environmental footprint. The energy consumption at Klarna HQ is high but reasonable for the business that is conducted here, but is continually evaluated to find additional improvements that makes the energy consumption more efficient. One of the planned forthcoming improvements for 2018 is to investigate if switches can be installed in meeting rooms to power off unused equipment.

Below is a summary of all offices consumption for 2015 and 2016.

KVM Consumption/year for Klarna Offices		
Legal entity	2015	2016
KLARNA AB*	700247	720928
KLARNA AS	46368	47712
KLARNA AUSTRIA	5499	5451

KLARNA B.V.	N/A	34088
KLARNA LTD. ISRAEL	N/A	N/A
KLARNA OY	N/A	7603
KLARNA US	N/A	N/A
KLARNA UK	N/A	11165
GERMANY COLOGNE	59000	51500
GERMANY LINDEN	35935	56149
GERMANY MUNICH	92862	73031

*Klarna Bank AB (publ) was called Klarna AB before receiving the banking license in 2017.

Renewable resources

Klarna's HQ office is powered with 100% renewable electricity by its energy supplier, who have received the Swedish label "Bra miljöval" (Good environmental choice) and is audited every year by external auditors.

The supplier deposits an amount to an environmental fund for every kilowatt hour sold. The fund is solely used to reduce the impact of hydroelectric power on the local environment.

Energy at Klarna HQ office building in Stockholm

When relocating Klarna HQ one important factor in the choice of the current office was the central location. This ensures that employees can travel easily to and from work by bicycle and/or public transportation. It also ensures easy and climate smart access for employees and visitors who travels in from other countries as several eco-friendly means of transportation are available straight to the office, such as high-speed trains and public transportation.

This is an important factor that Klarna considers when evaluating potential new office sites, such as when relocating the German office to Munich previously this year.

Energy at Klarna offices worldwide

There is a number of eco-friendly initiatives at local office sites, such as Helsinki and Amsterdam that uses climate smart lighting solutions to save energy with the use of motion sensors, and the Munich office that gets its energy from renewable resources just as the Klarna HQ office in Stockholm. In addition to that it has a centralized control in the building that adjusts the temperature to minimize energy consumption.

Other office buildings used by Klarna Group that have received certifications are the office building in Oslo, that have received an Energy Certificate from NVE (Norwegian Water Resources and Energy Directorate), and its equivalent in Amsterdam that is certified by EPBD (Energy Performance of Buildings Directive).

BREEAM

The Klarna HQ office is located in a climate smart building that has been BREEAM certified with the grade Excellent, which recognizes that the eco-friendly solutions in the office building contributes to a better environment. *(The BREEAM certification scale ascends as follows; Acceptable, Pass, Good, Very Good, Excellent or Outstanding.)*

In addition to its BREEAM certification, the building won the Swedish Green Building Award 2012.

Below lists a few factors that contributed to receiving the high grade of certification and winning the award.

- Energy consumption has been reduced with 70% to 35 kWh/m² - reducing the carbon emissions with 1000 ton/year
- Central location with easy access to public transport and the possibility to ride a bike to work (supported by cycle garages and complete dressing rooms with showers)
- Improved indoor climate contributing to both good health and wellbeing in the work environment
- Rooftop green garden that contributes to the city's diversity of plants and insects

BRE Environmental Assessment Method (BREEAM) is an environmental certification system from the UK. It has existed since 1990 and is one of the oldest environmental certification systems that have been used to certify over 500,000 buildings. The system is the most widespread of the international systems in Europe.

Assessment Indicators:

- Project management
- Energy consumption
- Indoor climate
- Water management
- Waste disposal
- Use of land
- The impact on the ambient environment
- Building materials
- Pollution
- The building's location in relation to public transport
- Innovative technical solutions contributes to a higher grade

Roof park with plantations

Adding to the BREEAM house is a roof top green garden which is built to add to the flora and fauna of the urban city center. The garden is 3000 sqm and contains samples from the Swedish nature landscape such as flower meadows and small grown forests, alongside pebble and stone areas.

Printouts

Klarna aims to be a paperless office. Several IT tools ensure that the need for printouts are kept low, and to make sure no unnecessary printouts are made unintentionally all personnel need to physically confirm prints with their ID-badge as nothing gets printed automatically. The HQ office with approx. 1000 employees had 439 125 printouts during the last year. All staff use portable laptops and each meeting room is equipped with a screen that all participants can use and view to eliminate the need to share information with printouts.

Despite the rapid growth of the company paper consumption has significantly decreased over the past few years, as evident in the table below.

Device	Country	Prints			Total
		2015	2016	2017	
shelley	Amsterdam	16412	14933	12180	43525
GEN68C487	Cologne	27826	19145	9279	56250
GEN8DA93F	Cologne	21358	20134	12753	54245
GEN6CD7E5	Helsinki	22856	10787	6821	40464
GEN975CF5	London	13670	18139	14295	46104
GEN8DA51B	Oslo	15713	7955	4431	28099
GEN8276DE	Stockholm	20838	48139	70831	139808
GEN82E27C	Stockholm	7899	8500	570	16969
GEN82EA7A	Stockholm	42802	30620	26385	99807
GEN82ED3E	Stockholm	84231	54535	56757	195523
GEN82EE3C	Stockholm	58055	37803	16904	112762
GEN8AA259	Stockholm	93405	70138	50095	213638
GEN8B5F94	Stockholm	123942	107229	41644	272815
GEN8B606E	Stockholm	0	25432	93266	118698

GEN8CCC4B	Stockholm	18429	16477	15909	50815
GEN8CD2B6	Stockholm	100230	67215	64874	232319
NM8DID7C	Stockholm	0	0	1890	1890
Olivetti-IL	Tel Aviv	13459	13819	8871	36149
GEN98D644	Uppsala	0	646	1492	2138
GEN8AC23B	Vienna	8090	5950	4726	18766
	TOTAL	689215	577596	513973	1780784

Recycling

Klarna aims to recycle as much as possible, from furniture to papers, and makes it easy for employees to recycle everyday. Recycling bins are available in the kitchen for plastic, glass, paper, bottles and cans, and money collected from recycled bottles and cans are donated to charity. Klarna also have recycling stations for papers, cardboard and batteries in the printer rooms.

Klarna always reflects on how the environmental impact can be reduced, for instance by evaluating the possibility to reuse furniture at other office sites or re-utilise them before considering to recycle or donate. In 2017 Klarna donated 9 034 SEK.

Recycling at Klarna offices worldwide

Klarna have recycling areas in the kitchen of all local office sites, with the exception of Amsterdam, and there are several local initiatives to reduce the environmental imprint such as using recycled papers for printers, using recycled or reused packages for deliveries and reducing the amount of bottles by using water dispensers.

Suppliers

Klarna selects suppliers with care and make sure that all contractors take environmental and ethical responsibility. Deliveries are optimised by engaging fewer suppliers to cover multiple needs which reduces the number of shipments.

Suppliers that care

One example of Klarna's efficient selection of suppliers is the extended agreement with a coffee supplier that has been trusted with water and fruit deliveries in addition to its original assignment during the past year. The supplier takes ethical responsibility and makes sure that everyone working with and for them have good working conditions, from farmer to deliverer.

They also make sure that the coffee farmers use a "Climate Smart Agriculture" and polyculture cultivation. This means that the farmer work to ensure that the farm has a minimal imprint on the local environment.

All fruit is ecological and leftover fruit from our HQ office get donated to a shelter for people in need.

Environmental friendly cleaning services

The cleaning company Klarna HQ is using have the ecolabel 'Svanenmärkning' an Nordic Eco label. The supplier offers its customers environmentally-friendly cleaning with a policy to use products with low consumption of chemicals and a high proportion of environmentally-friendly chemicals. The environmental impact from greenhouse gases is also minimized by means of stringent requirements as to transport and use of refuse bags. All this is combined with high cleaning quality and well trained staff.



Combating financial and cyber crime

Financial Crime

The financial sector has a core role to play in society's prevention of – and fight against – financial crime. Strong financial crime management practices are one of the most powerful devices against financial crime. They can prevent, disclose and help to identify corrupt practices and the people behind such activities.

The main forms of financial crime which Klarna has identified as having a significant impact on society – and which we can work to prevent – are:

- Fraud
- Money laundering
- Terrorist financing
- Sanctions risk management
- Bribery and corruption

How we prevent financial crime

We take the prevention of financial crime extremely seriously.

We actively manage the risks of financial crime. The Analytics division with Klarna is responsible for preventing fraud. The Financial Crime Unit is the centralized function which carries out the anti-money laundering, counter terrorist financing and sanctions work in the first line of defense. The Compliance Function has the overall responsibility for Klarna's Anti-Corruption Program to ensure that Klarna and its employees avoid any allegation of bribery or corruption.

We have clear policies and instructions in place. Regarding Fraud for instance the Credit Policy, the End Customer Credit Risk Management and Loss Prevention Instructions and related routines namely the Merchant and Trader Due Diligence Routine and the Consumer Due Diligence Routine. Regarding money laundering, terrorist financing and sanctions, the Anti-Money Laundering and Counter Terrorism Policy, related instructions, and relevant routines namely the PEP Routine, Reliance Underwriting Routine and the SAR Routine. Regarding Bribery and Corruption the Anti-Corruption Instruction.

We raise awareness among our staff through training. We have e-learning modules on Code of business conduct, Conflicts of interest & Anti-corruption, Anti-money laundering and countering Terrorist financing that are directed at all employees. Participation is mandatory and monitored to ensure it is completed by all employees. This is also part of the New Employee Orientation training which for the compliance part is mandatory for all.

Cyber crime and security

Klarna as an almost entirely online company are working actively to prevent cybercrime and mitigate the potential risks it poses to us as well as our customers. Mitigating the risks of cybercrime for our customers is a fundamental part of Klarna's services. Safety and trust being the foundation for our services as we take on the risk for both consumers and merchants even to a greater extent than regulatory required, hence leveraging all aspects we can to ensure - both parties trust in Klarna's services, as well as consumers trust towards merchants in the purchase process, are essential for a safe and reliable shopping experience.

Security is an essential requirement in the internal processes of Klarna and an attribute ingrained in its products and services. To support this Klarna has invested in internal resources and capability for both proactive and reactive measures. Protecting the confidentiality of customer's information is at the heart of this as is ensuring the availability and integrity of our services.

Klarna are constantly striving to mitigate all fraudulent activity and work actively to prevent fraud attempts. As e-commerce evolves so does the modus operandi of fraudsters, who are becoming increasingly sophisticated in the methods used to target companies and financial institutions of all size. Klarna has built up more than a decade of experience in this area and has a strong dedicated team working around the clock monitoring systems. This means that in order to prevent fraud, and protect both consumers and merchants from exposure to online crime, Klarna needs to be continually evaluating the effectiveness of existing tools, innovating for new solutions, vigilant in 24/7 monitoring and being agile in battling fraud attempts both proactively and reactively.

Klarna is part of a E-Commerce Working Group which cooperates with Interpol with the purpose to enhance the cooperation between law enforcement and the private sector in the combat against Card Not Present Fraud.

In order to achieve a consistent security Klarna has a Information Security Management System, a framework of rules, and processes based on ISO 27001. Klarna is PCI DSS compliant, Soc 3 certified, and compliant with a multitude of regulatory requirements. Compliance with this framework is monitored through Klarna's risk management framework including the independent internal audit function.

The company's internal work frame include a number of security controls in the Systems Development Life Cycle (SDLC), such as working according to guidelines from Open Web Application Security Project (OWASP - a non-profit organization that sets standards for safe development). Klarna also support and participate in special interest organizations to promote and encourage the security of Internet and society as a whole.

Data protection

Klarna has set a high standard for how to deal with personal data within our systems. This is not only due to mandatory legislation, but also based on the respect Klarna has for our customers' privacy and their expectations on us as a financial service provider.

Klarna is compliant with applicable legislation and does a lot more. Klarna has a Global Privacy Office (GPO) - safeguarding data protection composed of a team of dedicated data protection professionals, lead by the in-house Chief Privacy Officer.

GPO supports the complete organization in all processes and markets e.g. in:

- Adopting the Privacy Program
- Understanding and implementing new legislation
- Participating in contract negotiations
- Developing new products
- Supporting customer service
- Regulators- working closely together with policymakers and regulators in order to contribute to continued development of best practices in the industry

Social

The society's confidence in Klarna is a crucial part of our business as well as critical to our success. This trust and confidence is earned by acting responsibly and by meeting society's expectations.

Klarna's ambition is to be safer, simpler and smarter. To us this means:

Safer: We want to provide safety, both to end customers who are shopping online and pay after they have received their goods - and to merchants who can be sure to always get paid in time.

Simpler: We want to make shopping as frictionless and smooth as possible, for example, by making the checkout process as easy and intuitive as possible.

Smarter: We want to build innovative solutions that benefit consumers in order to make everyday life a little bit more smooth.

Human Rights

Human rights are basic rights for individuals. They form the foundations for freedom, justice and peace. They apply equally and universally in all countries, irrespective of the legal framework.

As a global company, we have a clear responsibility to support governments and civil society groups in ensuring human rights are upheld and respected in all countries we operate in. Klarna believes that although governments have the primary duty to protect and ensure fulfilment of human rights, business entities have a responsibility to respect human rights and can play a positive role in the communities where they operate.

Klarna complies with all relevant international legal obligations and all relevant local legal obligations in the countries in which it operates. Klarna works to protect human rights in its own operations through its internal policies and procedures regarding the treatment of employees.

Klarna respects employee human rights as established in the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work, including non-discrimination, prohibition of child and forced labour, freedom of association, as well as safe and healthy working conditions. Klarna offers equal opportunities and equal rights to all, irrespective of gender, national or ethnic origin, religion or belief, age, transgender identity or expression, sexual orientation or disability.

Klarna is not a political organisation and does not engage in political activity or support political parties in any country it operates in.

Klarna as a taxpayer

In Klarna's Finance Policy which is adapted by the Board of Directors, it is stated that one of Klarna's overall objectives of financial management is to achieve an acceptable balance between tax expense efficiency and tax risk while taking Klarna's rapidly changing business operation into consideration. According to the Finance and accounting instructions, Klarna should ensure that local tax legislation is complied with.

Stakeholder groups

Maintaining stakeholder relationships is key for driving Klarna forward, also as a sustainable actor in society. Continuous and transparent dialogue with our stakeholders increases our understanding of stakeholders' priorities and expectations. The relationship with our stakeholders aids us in concentrating efforts and resources to sustainability aspects that create the largest sustainable impact.

Stakeholder group	Ways to engage interest groups
Consumers	<ul style="list-style-type: none"> • Customer satisfaction surveys • Self-service portal and app • Support • Dispute management
Merchants	<ul style="list-style-type: none"> • Customer satisfaction surveys • Merchant Support • Merchant Advisory Board
Co-workers	<ul style="list-style-type: none"> • Employee surveys • Performance and Development Dialogue • Klarna Academy • Annual kick-off and monthly All hands staff meetings • Whistleblowing
Shareholders/investors	<ul style="list-style-type: none"> • Personal meetings • Answering survey requests
Suppliers	<ul style="list-style-type: none"> • Site visits • Dialogue during the purchasing process
Supervisory authority	<ul style="list-style-type: none"> • Ongoing discussions • Answering inquiries

Klarna – Our People

Committed employees

The company's clear goal of changing the way the world buys is dependant on, and interconnected with, an ambitious mindset needed from the staff that takes on this challenge. In order to deliver solutions that serve this purpose it is imperative to engage committed and driven employees that challenge expectations believing in their skills and knowledge.

Having employees with the right skills and expertise is essential for Klarna, therefore working strategically to attract and retain the employees needed for the long-term development and success of

Klarna and its business. Klarna as a group currently has 1700 employees, with roughly a third working within engineering and product development, we are actively recruiting talent from around the globe.

Inclusion and Engagement

Nurturing the connection between the management team and all company employees is a matter of priority with several initiatives serving to eliminate any perceived gap that risk to emerge with quick growth and fast paced work environment. Frequent and open dialogue in Friday Fika chats, Business updates and group All Hands strengthens the bond and dialogue between management and employees while keeping the information flow as direct as possible.

The tri-quarterly engagement survey results provides basis to get a better understanding of current perceptions and identify areas of improvement and success in regards to employee engagement, development, vision awareness and management expectations.

Diversity enriches our business

Klarna offers its employees a workplace that supports diversity and where differences are both respected and appreciated. We do not tolerate discrimination or harassment of any kind, whether this is based on an individual’s ethnic or national origin, gender, skin colour, faith, religion, citizenship, age, disability, civil status, sexual orientation or anything else. Klarna has a clear company wide internal policies regarding what constitutes inappropriate behaviour that will be not tolerated and guidance on how it should be handled. Klarna has also implemented a number of different reporting mechanisms and whistleblowing tools to enable staff to report behaviour or incidents with confidentiality safeguards.

As an employer, Klarna ensure that all employees are treated equally, with respect and dignity, and that everyone is given the same opportunities for professional and personal development. To ensure the right people are at Klarna the talent acquisition recruitment processes are designed to remove unconscious bias from the equation, while manager and team leader trainings provide the knowledge and practices needed to maintain the environment we strive for. There is strong cultural diversity at Klarna, with employees of 65 nationalities employed worldwide, with more than 50 belonging to staff that come together everyday in the Stockholm HQ office.

The company's Gender Diversity Initiative has ensured a continued effort to include gender awareness and provide transparency on gender goals across the company,.

Below table shows recent development of gender diversity in company wide management positions and stated target for 2019.

	2016	2017	Goal for 2019
Female managers	32%	36,5%	40%
Female CXO/VP/Director	20%	24%	30%

Health and Safety

Klarna is responsible for working to achieve a safe, healthy and productive workplace. Healthy work environments results in healthy employees and increased well-being, laying the groundwork for successful business results. The safety of employees at the workplace is prioritized.

Klarna want to ensure a healthy lifestyle for all employees and therefore offer different health benefits, such as wellness allowance, flexible working hours, parental benefits, as well as health and rehabilitation insurance. The company also provide support in the immediate work environment to prevent illness and support rehabilitation.

Learning and Development

Klarna is in an industry undergoing rapid change, driven primarily by new customer behaviour and new revolutionizing technology. In a company contributing to drive that development with innovative solutions space is created for employees to develop their individual professional skills. Klarna's culture is based on sole commitment and the willingness to develop and take responsibility for achieving both the company's and own personal goals.

Employees get the opportunity to grow in different ways, for example through learning in everyday life, through participation in change projects, formal learning through education and network participation. Klarna has a wide range of learning programmes that are visible through a digital platform that provides an overview of the entire range, both the training courses that are specific to Klarna and those provided by external suppliers. Klarna offer courses such as language, sales, leadership, presentation skills, communication etc. Several methods and tools are being offered to facilitate learning.

Leadership

Constant development, often leading to changes in the business environment, means greater demands on managers and hence continues to be an important area for Klarna to focus on. It is important that managers inspire, act as role models and establish conditions that enable employees and teams to develop the business in the best way possible.

For existing managers, programmes provide opportunities to develop their leadership qualities both as individuals and members of a team. There are tools available to strengthen collaboration within and between groups, to assist managers in understanding their staff, themselves and the organization, in order to enable and support them to perform at a high standard. This includes but are not limited to DISC analysis, New Manager Orientation, as well as Motivational leadership training.

Ethics Policy and Code of Business Conduct

Klarna always runs its activities in a credible and ethically acceptable way, and always strives to comply with applicable laws and trade practices.

Klarna has the ambition to be a good citizen of its society and hence we always strive to act in a way that is consistent with society's expectations on Klarna. To simply follow the rules is not good enough - we need to avoid situations where our actions are or can be seen as hurtful to others.

Klarna wants to provide services and remain in business for the long term, and this overall focus should guide us in our daily decision making - helping us to think about what the long-term consequences of our actions may be.

Merchant Ethics

Klarna strives to only cooperate with merchants whose activities are in line with Klarna's vision of safety and simplicity. For Klarna, this means that ethical aspects of the merchant's business are taken into account. As a major player Klarna aims to realize this vision and to have a positive influence on the market. Klarna's products and services may only be used for lawful purposes. In addition, Klarna wants to prevent our products and services from being used in an unethical way.

Klarna has set clear ethical guidelines consisting of some general principles, which are exemplified in an appendix. The examples listed as "Prohibited" are disallowed while examples listed as "Restricted" may be allowed under certain conditions and upon pre-approval from Klarna. The general principles are:

- **Unethical Business Methods and Practices** which mean that Klarna shall not cooperate with merchants, which sell products or carry out services with means and methods that are misleading, deceptive, abusive or unfair to customers, or otherwise unethical or illegal.
- **Unethical Products and Services** - Klarna will not cooperate with merchants providing products or services which Klarna considers, in its sole discretion, as unethical under these guidelines. Some products can be categorized as products of dual use, meaning that they may have a legitimate use, but also an illegitimate use.
- **Third party restrictions** - In provision of some services, Klarna cooperates with various partners (e.g. third party payment providers). Several of these partners apply their own prohibitions and restrictions. This means that additional prohibitions and restrictions apply for merchants, who wish to use such services.

The ethical guidelines apply contractually when onboarding new merchants, and Klarna has a designated ethics committee that serves as a review board on precarious occasions. In order to make sure that all merchants comply with their set agreement they are actively monitored by a dedicated team that take on responsibility for ensuring that the ethical guidelines of Klarna are followed once onboarding is completed.

Supporting entrepreneurship

Klarna takes pride in being part of the startup eco-systems of Stockholm and the Nordics. Being an entrepreneurial company it is important for us to help others grow by widely sharing our knowledge and experience.

Financial Coalition against Commercial Sexual Exploitation of Children

Klarna is since 2016 engaged in the Swedish Financial Coalition Against Commercial Sexual Exploitation of Children, an organization whose purpose is to prevent and obstruct payments for documented sexual abuse of children through the Swedish financial system. If you want to know more about the coalition please visit their website www.finanskoalitionen.se

External Initiatives

We support many great initiatives both financially and with our knowledge, some examples are SthlmTech, WomenCreateTech, WomenInTech, Railsgirls and the Hello World! concept. We also host many internal and external Hackathons at different locations around the globe.

Klarna is also engaged in initiatives such as Korta Vägen (The Quick Route), that aims to bring newly arrived job seekers, with higher educations from non-EU countries, on to the job market quickly by linking them with potential employers.

Matching employee charity donations

Klarna has a history of encouraging employee charity initiatives. We have for example matched the collected donations of all our employees at times when the world was troubled, and thereby doubling the financial effect of these initiatives.

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