PayPal 2 S.à r.l.

Pillar III Disclosure
31 December 2022

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1 Introduction

PayPal 2 S.à r.l. ("PP2") is the direct parent of PayPal (Europe) S.à r.l. et Cie, S.C.A. ("PPEU"). PP2 qualifies as a Parent Financial Holding Company ("PFHC") as defined under, the law of 5 April 1993 on the financial sector, as amended (the "1993 Law") by the Commission de Surveillance du Secteur Financier ("CSSF"). On 18 October 2021, PP2 received an exemption from being licensed as a PHFC with the CSSF resulting in PPEU to be the designated institution to perform all consolidated supervision on behalf of the consolidated group and PFHC. As part of the PFHC requirements, under the 1993 Law, compliance with the applicable prudential requirements and reporting is undertaken by PP2 on a consolidated basis. This consists of ensuring continued compliance of all regulatory requirements for continued authorization which includes the consolidation and reporting obligations under the Capital Requirements Regulation No 575/2013 ("CRR") starting from 31 December 2021.

As of 31 December 2022, PPEU is the sole undertaking in which is PP2 invested. Due to the nature of the business conducted by the parent entity, PP2, as exclusively a PFHC for PPEU, the activity carried out at a consolidated level is similar to that of PPEU itself. The information in this report relates to PP2 and PPEU (hereafter the "Bank"). Any content not disclosed is deemed not applicable or has no value to be disclosed at reporting date. Amounts are in USD otherwise stated.

1.1 Governance

PP2 Board of Directors

- Sean Byrne - Vice President
- Steeves Oster - Senior Director
- Fabrice Borsello - Senior Director

PPEU Supervisory Board

Internal non-executive members

- Wei-Lin Lee - Vice President, Remittances
- Cameron McLean - Senior Vice President, Europe and Australia Enterprise

External non-executive members

- Norbert Becker (Chairperson)
- David Bennett
- Dominique Reiniche

PPEU Management Board

- Sean Byrne - Vice President, Chief Executive Officer
- Steeves Oster - Senior Director, Chief Financial Officer
- Fabrice Borsello - Senior Director, Chief Risk Officer

The management of the Bank's business and execution of its strategy are subject to a number of risks. Risks are formally reviewed by the Audit, Risk and Compliance Committee ("ARCC") of the Bank and appropriate processes are in place to monitor and mitigate these risks.

The Supervisory and Management Boards have implemented an Enterprise Risk Management, framework for identifying, analyzing, monitoring and controlling the risks that they perceive to be the most critical to the business, as per the Bank's annual risk assessment. The Bank has various service level agreements with affiliated companies and the service level performance under these agreements is closely monitored by its' Affiliate Services function.

The risk and capital planning policies and limits are set by the Supervisory and Management Boards and monitored at regular meetings. In addition, the Capital Structure Committee ("CSC") meets regularly to review the PayPal group funding and liquidity strategy and needs as well as asset and liability management and related risks in the context of business initiatives and market conditions.

The ARCC and Supervisory Board quarterly meetings are organized and entails the Bank's results of operations, financial position, business strategy and risk exposures. The Supervisory and Management Boards consider that adequate systems and controls are in place regarding the Bank's profile and strategy and an appropriate array of assurance mechanisms, which are properly resourced and skilled.

The Bank also followed the European Banking Authority's ("EBA") recommendations for sound liquidity risk management and supervision, as set in the "Second Part of CEBS's Technical Advice to the European Commission on Liquidity Risk Management", eighteen of which are also enclosed in the Commission de Surveillance du Secteur Financier ("CSSF") Circular 09/403.

The Pillar III disclosures have been subject to the Bank's internal control framework, to ensure compliance with laws and regulations. These disclosures have been shared to the Bank's Audit, Risk and Compliance Committee ("ARCC") for review and submission to the Bank's Supervisory Board for final approval. This report has not been audited by the Bank's external auditor..

1.2 Management attestation

The Bank has operated a framework of disclosure controls and procedures to support the appropriateness of the Pillar III disclosures. In line with the ITS and the mapping tool as provided by EBA, the templates in this report have been aligned to other supervisory reporting and reconciliation were executed against regulatory reporting to CSSF. The content of this report has been subject to adequate verification and comply with applicable standards and legislation.

2 Capital requirements

2.1 Supervision

PPEU being a credit institution, the Bank is subject to the prudential supervision of the CSSF.

The prudential supervision includes the control that the Bank ensures the availability of own funds at least equal to the sum of the capital adequacy requirements. PPEU met all regulatory capital requirements since its authorisation to operate as a credit institution in Luxembourg.

2.2 Capital adequacy

The Bank is required at all times to maintain eligible own funds at least equal to the amount of its overall capital requirements, on a stand-alone basis.

As per CSSF Circular 14/593 as amended, the prudential reporting scheme regarding capital adequacy has been updated in order to make the Luxembourg prudential reporting scheme on capital adequacy compliant with the Common Reporting ("COREP") scheme as defined by the EBA.

As of 31 December 2022, the Bank had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Bank financial condition, results of operations, liquidity, capital expenditures or capital resources.
The Bank's regulatory capital consists of:

- Common Equity Tier 1 ("CET1") capital: Total shareholders' equity, less prudential filters for additional valuation adjustments;
- Tier 1 capital: CET1 capital (the bank has not issued any Additional Tier 1 capital ("AT1")); and
- Tier 2 capital: No Tier 2 instruments have been issued.

A prudential filter for an Additional Valuation Adjustment as per Article 34 of the CRR is in place and during 2022 had an impact of USD 3.3 million on CET1 as of 31 December 2022.

EU OV1 - Overview of total risk exposure amounts

in thousands of USD	*Total risk exposure amounts (TREA)* *31 December 2022*	*Total own funds requirements* *31 December 2022*
Credit risk (excluding CCR)	4,450,402	356,032
Of which the standardised approach	*4,450,402*	*356,032*
Counterparty credit risk - CCR	57,237	4,579
Of which credit valuation adjustment - CVA	*22,824*	*1,826*
Of which other CCR	*34,413*	*2,753*
Position, foreign exchange and commodities risks (Market risk)	30,912	2,473
Of which the standardised approach	*30,912*	*2,473*
Operational risk	801,235	64,099
Of which basic indicator approach	*801,235*	*64,099*
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	42,924	3,434
Total	***5,339,787***	***427,183***

To calculate the solvency ratio, the Bank elected to approaches described in the following sections for each risk identified.

2.2.1 Credit risk

The Bank elected the Standardised Approach for calculation of capital requirements for credit risk. The Standardised Approach election for credit risk allows the adoption of either the simplified or the comprehensive method for financial collateral treatment for capital adequacy purpose. The Bank elected the comprehensive method.

Where the maturity of the collateral differs from the underlying exposure, an adjustment reflecting the maturity mismatch is to be applied. Currently all mutual claims/payment obligations are due on demand and therefore there is no mismatch between the maturity of the exposures and the maturity of the related collateral.

2.2.2 Market risk

2.2.2.1 Coverage of positions risk associated with non-trading book business

Coverage risk of interest rate risk

The Bank limits its net asset value exposure to interest rate risk by match-funding the duration of its assets and liabilities. According to the Investment Policy, the Bank is required to maintain its non-trading book weighted average maturity shorter than 365 days.

However, the Bank's earnings are interest rate sensitive due to the structure of the Bank's statement of financial position whereby the liabilities (e.g. eMoney liabilities and other liabilities) are predominantly non-interest bearing as opposed to the assets which are predominantly interest bearing (i.e. cash and cash equivalents, or loans and advances to banks and customers).

Coverage of the risk linked to price changes

As at 31 December 2022, the Bank had no equity positions and USD 3,067,798,636 in bonds positions.

The Bank limits its exposure to price change risk by investing in high quality liquid assets, with a contractual maturity below 365 days for 66% of the total fixed and floating income positions.

The Bank's fair valued instruments are subject to valuation adjustments, supported by a bank-wide valuation policy framework meeting IFRS and CRR requirements. At 31 December 2022, the Bank fair values its financial derivatives, bond and PPWC merchant portfolios which leads to a prudent valuation adjustment deducted from its CET1 amounting to:

EU PV1 - Prudent valuation adjustments (PVA)

in thousands of USD	*Total category level post-diversification*
Total Additional Valuation Adjustments (AVAs)	3,300

2.2.2.2 Coverage of foreign exchange risk

Foreign exchange risk is covered by capital. A capital requirement for foreign exchange risk is applied if the overall net currency position exceeds 2% of the Bank's capital. As long as this 2% limit is not reached, no capital requirement is applied in respect of foreign exchange risk.

Standardised method

The capital requirement for foreign exchange risk shall be calculated in 3 steps:

- First step: calculation of the net open position in a given currency;
- Second step: calculation of the overall net currency position; and
- Third step: calculation of the capital requirement.

Net short and long positions in each currency other than the capital currency shall be translated at spot rates into the capital currency; they shall then be summed separately to form the total of the net short positions and the total of the net long positions respectively.

At 31 December 2022, Market Risk exposure amounts to:

EU MR1 - Market risk under the standardised approach

in thousands of USD	*RWEAs*
Foreign exchange risk	30,912
Total	***30,912***

Measures taken by the Bank to manage foreign exchange risk

The Bank limits its foreign exchange risk by hedging exposures such as loans, deposits and investments in currencies other than the functional currency if the overall net position exceeds USD 50 million or equivalent.

To cover the foreign exchange risk, PayPal has entered into a global agreement with a partner bank whereby the partner provides foreign exchange rates which are quoted on the PayPal foreign exchange conversion product after PayPal adds its own spread or mark-up on the wholesale exchange rates.

Exceptions to that general rule must be approved by the Management Board and the Treasurer. No trading risk is taken by the Bank. It is the Bank's policy not to hold any trading book.

Internal foreign exchange exposure limits are defined within the FX Treasury policy.

Where the collateral is denominated in a currency that differs from that in which the underlying exposure is denominated, an adjustment reflecting currency volatility ("FX haircut") shall be applied to the market value of collateral in order to take into account price volatility. There was no FX haircut applied for currency mismatches as at 31 December 2022.

2.2.3 Operational risk

The Bank elected to operate the Basic Indicator Approach (the "BIA").

The calculation of Operational Risk capital is based on 15% of the simple arithmetic average over three years of the sum of net interest income and net non-interest income.

The calculation of the three-year average is based on the last three twelve-monthly observations at the end of each financial year. The table below provides information on the calculation of own funds requirements for operational risk management at 31 December 2022:

EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

in thousands of USD	*Relevant indicator*			*Own funds requirements*	*Risk exposure amount*
Banking activities	***Year-3***	***Year-2***	***Last year***		
Banking activities subject to basic indicator approach (BIA)	333,717	368,260	580,000	64,099	801,235

The Bank meets the minimum capital requirements. Capital adequacy is monitored daily through compliance reports and reported in the monthly Operations, Compliance and Risk Committee ("OCRC").

The Bank's policy is to hold sufficient capital to meet current and future development of the business, while maintaining investor, creditor and market confidence.

There have been no material changes in the Bank's management of capital during the year.

2.2.4 Prudential Own Funds

2.2.4.1 Adequacy of internal capital

As part of Pillar II of the Basel III capital accord and as per CSSF Circular 07/301 as amended, and based on the Bank's Internal Capital Adequacy Assessment Process ("ICAAP") report, the Bank had sufficient capital to cover the risks taken throughout the year 2022.

EU KM1 - Key metrics template

in thousands of USD	*31 December 2022*	*30 September 2022*	*30 June 2022*	*31 March 2022*
Available own funds (amounts)				
Common Equity Tier 1 (CET1) capital	1,229,253	1,226,570	1,225,984	1,080,240
Tier 1 capital	1,229,253	1,226,570	1,225,984	1,080,240
Total capital	1,229,253	1,226,570	1,225,984	1,080,240
Total risk exposure amount				
Total risk exposure amount	5,339,787	4,691,750	4,718,245	4,671,073
Capital ratios (as a percentage of risk-weighted exposure amount)				
Common Equity Tier 1 ratio (%)	23.02%	26.14%	25.98%	23.13%
Tier 1 ratio (%)	23.02%	26.14%	25.98%	23.13%
Total capital ratio (%)	23.02%	26.14%	25.98%	23.13%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.00%	2.00%	2.00%	2.00%
of which: to be made up of CET1 capital (percentage points)	*1.13%*	*2.00%*	*2.00%*	*2.00%*
of which: to be made up of Tier 1 capital (percentage points)	*1.50%*	*2.00%*	*2.00%*	*2.00%*
Total SREP own funds requirements (%)	10.00%	10.00%	10.00%	10.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%
Institution specific countercyclical capital buffer (%)	0.51%	0.02%	0.01%	0.04%
Combined buffer requirement (%)	3.01%	2.52%	2.51%	2.54%
Overall capital requirements (%)	13.01%	12.52%	12.51%	12.54%
CET1 available after meeting the total SREP own funds requirements (%)	14.51%	18.13%	17.97%	14.93%

2.2.4.2 Risk weighted assets breakdown

The table below shows the risk-weighted exposure amounts by exposure classes, as defined in the CRR and its subsequent updates on prudential requirements for credit institutions. The Bank entered into netting agreements with several entities. These agreements meet the International Financial Reporting Standards ("IFRS") criteria for balance sheet offsetting. As at 31 December 2022, mutual claims between the Bank and these entities are effectively reported on a net basis in the statement of financial position. For further information on amounts netted as a result of these agreements, see note 3.2.3. Risk adjusted amounts correspond to amounts after application of a risk conversion factor and credit risk mitigation techniques. The table below illustrates the effect of all CRM techniques applied in accordance with the Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 on the standardised approach capital requirements' calculations:

EU CR4 - standardised approach - Credit risk exposure and CRM effects

in thousands of USD	*Exposures before CCF and before CRM*		*Exposures post CCF and post CRM*		*RWAs and RWAs density*	
Exposure classes	*On-balance-sheet exposures*	*Off-balance-sheet exposures*	*On-balance-sheet exposures*	*Off-balance-sheet exposures*	*RWAs*	*RWAs density (%)*
Central governments or central banks	5,051,112	-	5,051,112	-	42,924	0.85%
Regional government or local authorities	113,355	-	113,355	-	22,671	20.00%
Multilateral development banks	1,194	-	1,194	-	-	0.00%
International organisations	34,934	-	34,934	-	-	0.00%
Institutions	1,085,057	-	1,085,057	-	244,247	22.51%
Corporates	1,483,012	38,127	1,483,012	7,625	824,948	55.34%
Retail	3,985,208	4,657,702	3,985,208	-	2,988,906	75.00%
Exposures in default	45,488	7,908	45,488	-	68,231	150.00%
Institutions and corporates with a short-term credit assessment	79,112	-	79,112	-	23,513	29.72%
Other items	452,917	-	452,917	-	234,962	51.88%
TOTAL	***12,331,389***	***4,703,736***	***12,331,389***	***7,625***	***4,450,402***	***36.07%***

Capital requirement is calculated as 13.01% of the weighted exposure, 8.0% attributable to minimum capital requirement, 2.0% additional own funds on the basis of the review and evaluation carried out by the CSSF, 2.5% to capital conservation buffer and 0.51% countercyclical capital buffer (refer to 2.2.4.5 *Countercyclical capital buffer*).

The exposure values for counterparty credit risk attributable to derivative instruments (foreign exchange derivatives) are calculated according to the original exposure method and are included in the risk adjustment amount in the tables below. Derivatives exposures are not subject to any credit risk mitigation effect. The financial derivatives wrong-way risk exposure has been assessed as nil.

EU CCR1 - Analysis of CCR exposure by approach

in thousands of USD	*Replacement cost (RC)*	*Potential future exposure (PFE)*	*Alpha used for computing regulatory exposure value*	*Exposure value pre-CRM*	*Exposure value post-CRM*	*Exposure value*	*RWEA*
EU - Original Exposure Method (for derivatives)	14,335	74,093	1.4	123,799	123,799	123,799	34,413
Total				***123,799***	***123,799***	***123,799***	***34,413***

EU CCR2 - Transactions subject to own funds requirements for CVA risk

in thousands of USD	*Exposure value*	*RWEA*
Transactions subject to the Standardised method	123,799	22,824
Total transactions subject to own funds requirements for CVA risk	***123,799***	***22,824***

EU CCR3 - Standardised approach - CCR exposures by regulatory exposure class and risk weights

in thousands of USD	*Risk weight*			
Exposure classes	*20%*	*50%*	*100%*	*Total exposure value*
Institutions	110,482	-	-	110,482
Corporates	-	2,002	11,316	13,317
Total exposure value	***110,482***	***2,002***	***11,316***	***123,799***

During the year 2022, the Bank entered into foreign exchange derivatives in AUD, CAD, CHF, CZK, DKK, EUR, GBP, HKD, HUF, ILS, JPY, MXN, NOK, NZD, PLN, RUB, SEK, SGD and ZAR. Open positions as at 31 December 2022 are detailed as follows:

Position	Currency	Fair value measurement	Notional in currency (in thousands)	Currency	Notional in USD (in thousands)	Maturity date
Long	AUD	Level 2	87,770	USD	59,798	1/24/2023
Long	CAD	Level 2	186,390	USD	137,517	1/24/2023
Long	CHF	Level 2	63,760	USD	68,967	1/24/2023
Long	CZK	Level 2	249,846	USD	11,073	1/24/2023
Long	DKK	Level 2	296,900	USD	42,736	1/24/2023
Long	EUR	Level 2	617,990	USD	661,558	1/24/2023
Long	GBP	Level 2	9,990	USD	12,071	1/24/2023
Long	HKD	Level 2	46,028	USD	5,900	1/26/2023
Long	HUF	Level 2	2,846,475	USD	7,629	1/24/2023
Long	JPY	Level 2	2,790,032	USD	21,280	1/24/2023
Long	NOK	Level 2	445,430	USD	45,434	1/24/2023
Long	NZD	Level 2	25,506	USD	16,197	1/24/2023
Long	PLN	Level 2	283,047	USD	64,696	1/24/2023
Long	SEK	Level 2	750,600	USD	71,975	1/24/2023
Long	SGD	Level 2	1,854	USD	1,384	1/25/2023
Long	ZAR	Level 2	115,700	USD	6,790	1/24/2023
Short	EUR	Level 2	(64,150)	USD	(68,673)	1/24/2023
Short	GBP	Level 2	(578,949)	USD	(699,544)	1/24/2023
Short	SEK	Level 2	(40,000)	USD	(3,836)	1/24/2023
Short	ZAR	Level 2	(15,000)	USD	(880)	1/24/2023

As of 31 December 2022, USD 4,666 million (2021: USD 4,083 million) of unused credit was available. While this amount represents the total unused credit available, this is unilaterally and fully revokable by the Bank. In addition the Bank has not experienced, and does not anticipate, that all of its holders of individual lines will access their entire available credit at any given point in time.

As of 31 December 2022 and 2021 the Bank did not have any exposure to securitisation positions, nor a trading book. The standardised approach is used to calculate risk weighted assets.

Risk weighted assets breakdown as of end of year

EU CR5 - standardised approach

in thousands of USD	*Risk weight*							*Total*
Exposure classes	*0%*	*20%*	*50%*	*75%*	*100%*	*150%*	*250%*	
Central governments or central banks	5,033,942	-	-	-	-	-	17,170	5,051,112
Regional government or local authorities	-	113,355	-	-	-	-	-	113,355
Multilateral development banks	1,194	-	-	-	-	-	-	1,194
International organisations	34,934	-	-	-	-	-	-	34,934
Institutions	-	994,274	90,784	-	-	-	-	1,085,057
Corporates	-	218,487	981,799	-	290,351	-	-	1,490,637
Retail exposures	-	-	-	3,985,208	-	-	-	3,985,208
Exposures in default	-	-	-	-	-	45,488	-	45,488
Exposures to institutions and corporates with a short-term credit assessment	-	53,475	25,637	-	-	-	-	79,112
Other items	-	258,242	22,722	-	171,953	-	-	452,917
Total	***5,070,070***	***1,637,834***	***1,120,941***	***3,985,208***	***462,304***	***45,488***	***17,170***	***12,339,015***

20%, 50% external ratings' based risk weights, were applied to investment securities under the CRR External Credit Assessment Institution ("ECAI") approach. ECAI ratings are taken from Moody's and Standard and Poor's.

2.2.4.3 Countercyclical capital buffer

The countercyclical buffer increased in 2022, most of the countries having applied a countercyclical capital buffer weight as nil during COVID-19 period. During 2022, United Kingdom ("UK") countercyclical capital buffer weight was amended from nil to 1.0%.

EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

in thousands of USD	*General credit exposures*	*Total exposure value*	*Own fund requirements*		*Risk-weighted exposure amounts*	*Own fund requirements*	*Countercyclical buffer rate*
Breakdown by country	*Exposure value under the standardised approach*		*Relevant credit risk exposures - Credit risk*	*Total*		*weights (%)*	*(%)*
AT	53,475	53,475	856	856	10,695	0.26%	0.00%
CA	9	9	1	1	9	0.00%	0.00%
CH	9,593	9,593	159	159	1,985	0.05%	0.00%
DE	1,821,840	1,821,840	104,872	104,872	1,310,895	31.57%	0.00%
ES	47,308	47,308	2,841	2,841	35,512	0.86%	0.00%
FR	449,322	449,322	23,344	23,344	291,799	7.03%	0.00%
GB	2,881,090	2,881,090	162,331	162,331	2,029,139	48.86%	1.00%
IE	1,687	1,687	135	135	1,687	0.04%	0.00%
IT	131,353	131,353	7,884	7,884	98,548	2.37%	0.00%
JP	38,693	38,693	1,548	1,548	19,346	0.47%	0.00%
LU	179,578	179,578	14,366	14,366	179,578	4.32%	0.50%
NL	62,999	62,999	2,638	2,638	32,971	0.79%	0.00%
US	389,733	389,733	11,257	11,257	140,713	3.39%	0.00%
Total	*6,066,679*	*6,066,679*	*332,230*	*332,230*	*4,152,877*	*100%*	

As at 31 December 2022 the value of countercyclical capital buffer amounted to:

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

in thousands of USD	
Total risk exposure amount	5,339,787
Institution specific countercyclical capital buffer rate	0.51%
Institution specific countercyclical capital buffer requirement	27,245

2.2.4.4 Leverage ratio

The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework as defined in the EU Regulation 575/2013 taking into account the complete "phased-in" definition.

EU KM1 - Key metrics template

in thousands of USD	*31 December 2022*	*30 September 2022*	*30 June 2022*	*31 March 2022*
Leverage ratio				
Total exposure measure	12,929,375	11,649,498	12,535,774	13,596,680
Leverage ratio (%)	9.51%	10.53%	9.78%	7.94%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%

In 2022, the leverage ratio increased at 9.5% benefiting mainly from the increase in Tier 1 capital and from the decrease in total assets. Difference with total assets of the consolidated entity is explained by the prudential approach retained for derivative instruments. The leverage ratio is maintained above the 3 percent minimum set in the CRR since 28 June 2021.

EU LR2 - LRCom: Leverage ratio common disclosure

in thousands of USD	*CRR leverage ratio exposures*
	31 December 2022
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs, but including collateral)	12,331,389
Total on-balance sheet exposures (excluding derivatives and SFTs)	***12,331,389***
Derivative exposures	
Exposure determined under Original Exposure Method	123,799
Total derivatives exposures	***123,799***
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	4,703,736
(Adjustments for conversion to credit equivalent amounts)	(4,229,550)
Off-balance sheet exposures	***474,186***
Capital and total exposure measure	
Tier 1 capital	1,229,253
Total exposure measure	***12,929,375***
Leverage ratio	
Leverage ratio (%)	9.51%
Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	9.51%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	9.51%
Regulatory minimum leverage ratio requirement (%)	3.00%
Overall leverage ratio requirement (%)	3.00%
Disclosure of mean values	
Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	12,929,375
Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	12,929,375
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	9.51%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	9.51%

The Leverage Ratio is monitored on an ongoing basis and its evolution is anticipated as part of the budget forecasting process. In addition the Leverage Ratio is considered as part of stress testing related to the Recovery Plan.

2.2.5 Pillar II capital requirements

PPEU ICAAP covers capital planning and management process and has been designed with the goal of ensuring that the Bank has appropriate funding in light of its risk exposures and contingency plans in the case of downturn scenarios. The Basel III framework recognises that prudential capital requirements (i.e., Pillar I) do not address all possible risks facing a bank, and therefore it requires that the banks assess their own risks and capital requirements to cover potential impact of these risks.

As part of the ICAAP, the Bank identifies the risks that may potentially affect it based on the review of the Bank’s risk assessments and analysis of the financial statements. Following risk identification, the Bank performs calculation of capital requirements needed to cover the risks that may potentially affect its capital on both standalone and diversified basis over a one-year horizon. As at 31 December 2022, Pillar II capital requirements amounted to USD 713 million.

3 Risk Management

3.1 Introduction

Risk and Compliance Oversight, part of the Risk and Compliance organization, is the Bank's internal risk control function (second line of defence) responsible for the overall anticipation, identification, measurement, monitoring and reporting of all risks to which the Bank is or may be exposed to (including through any outsourcing arrangements). Risk and Compliance Oversight supports the Management Board in ensuring that the risks of the Bank are managed appropriately and remain within its risk appetite as approved by the Supervisory Board.

The Bank operates the Three Lines of Defense model as relates to its Risk and Compliance management activities.

The Bank's First Line of Defense (i.e. Business Units and Centralized Functions) has an active and important role in its risk management practice. The First Line of Defense is responsible for establishing and maintaining their control environment in order to appropriately manage and mitigate risk in accordance with the Risk and Compliance Oversight Program requirements and to comply with applicable obligations. The Bank's Business Risk and Control leads ("BRCL") function supports the First Line in fulfilling their responsibilities with that regard.

Risk and Compliance Oversight (the Second Line of Defense), reporting to the Chief Risk Officer ("CRO"), supports the achievement of the objectives and responsibilities of the function.

The CRO is in charge of the implementation of the Risk and Compliance function as required by the Circular CSSF 12/552 as amended, oversees the compliance risks of the Bank and ensures adequate measures are taken to keep the Bank operating in line with regulatory requirements associated with the operating licenses granted to the Bank by the Ministry of Finance and other relevant financial services regulators. This includes management of compliance obligations, delegated to the Chief Compliance Officer ("CCO") including Anti-Money Laundering / Counter Terrorist Financing related obligations which are jointly delegated to the Money Laundering Reporting Officer ("MLRO"). The Bank's CCO and MLRO directly report to the CRO.

The Internal Audit acts as the Third Line of Defense. Internal Audit is an independent and objective assurance function designed to audit the Bank's operations and system of internal controls. It helps the Bank's ARCC as well as the Management Board to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Enterprise Risk Management

In addition, other main internal control functions of the Bank operate as follows:

- Compliance is responsible for the anticipation, identification, measurement, monitoring and reporting of legal, regulatory and internal policy compliance risks to which the Bank is or may be exposed (including through any outsourcing arrangements). The Compliance function shall prepare an annual summary report on the Bank's state of compliance. This report shall be submitted to the Management Board of the Bank for approval and shall furthermore be submitted to the Bank's ARCC and Supervisory Board for acknowledgement before submission to the CSSF;
- Credit Risk Management is responsible for the anticipation, identification, measurement, monitoring and reporting of retail and commercial credit risks to which the Bank is or may be exposed;

- Treasury is responsible for the anticipation, identification and measurement, monitoring, management and reporting of all counterparty credit (i.e. exposures towards financial institutions where the Bank invests its money), large exposures concentration (i.e. intra-group exposures towards other PayPal Group entities), market (i.e. foreign exchange and interest rate), and liquidity risks to which the Bank is or may be exposed to;
- Finance Controllership and Tax are responsible for the anticipation, identification and measurement, monitoring, management and reporting of all accounting, taxes, VAT and financial reporting risks to which the Bank is or may be exposed;
- The Chief Information Security Officer ("CISO") and Technology Oversight role in the EMEA region ensure that technology and information security risks and controls are adequately and effectively managed. This position is responsible for driving the Technology and Information Security Oversight program in the region, in order to support the global Technology and Information Security strategy from a Second Line of Defense perspective, and ensure that regional business objectives are developed, implemented and maintained accordingly;
- Data Privacy is responsible for the anticipation, identification, measurement, monitoring, management, and reporting of all data protection and banking secrecy risks to which the Bank is or may be exposed;
- Affiliate Services is responsible for the oversight, assessments and reporting of all outsourcing relationships through intra-services, cascading down to the full outsourcing chain to external third parties, defining and engaging with Service Level Agreement ("SLA") owners designated at the respective service provider for each function that has been outsourced; and
- Legal is responsible for providing legal advice on a diverse range of subjects which affect the Bank's functional areas. The team manages corporate governance and advises on all aspects of legal operational risk management, including: intellectual property rights allocation; contracting with external parties; regulatory or legal actions; disputes for or against the Bank; and losses caused from a failure to correctly document, enforce or adhere to contractual arrangements, inadequate management of non-contractual rights and a failure to meet non-contractual obligations. The team also supervises legal research and analysis, identifying important issues and apprising the Bank's functional areas of emerging legal trends. Legal provides legal guidance and advice to functional areas. Legal is responsible for reviewing and approving the mapping of all existing, new and changed obligations to products and services on a timely and ongoing basis.

Risk Assessment ("RA")

The accurate and timely identification and assessment of risks is essential for effective risk management. The Bank utilizes the Enterprise Risk Assessment process to identify and measure risks, which enables to effectively manage and mitigate them. Risk and Compliance Oversight documents and establishes enterprise standards and methodologies for conducting risk assessments in the Enterprise Risk Assessment Program Policy.

Annual Risk and Compliance Plan

Managing and mitigating risk is an important aspect to ensuring the Bank meets its business goals and objectives. The Bank seeks to manage and mitigate risk by identifying, assessing, measuring, monitoring, and reporting risk.

The Annual Risk and Compliance Plan ("ARCP") identifies the key risk management activities and areas of focus. The ARCP includes deliverables owned by PayPal's global functional areas and activities executed in support of enterprise initiatives or programs. This approach enables the Bank to prioritize risk management activities and allocate resources in a smart and effective manner. Progress against the activities set forth within this ARCP is measured and captured within the quarterly Risk and Compliance Review ("RCR") process.

The Bank's CRO, or his/her designee(s), oversees execution of the ARCP, and is responsible for making revisions as necessitated by significant changes, such as new business initiatives, shifts in regulatory requirements and expectations, and other Risk activities that emerge during the year. The methodology for developing ARCP is outlined in the ARCP Procedures.

Risk Monitoring & Reporting

The Bank's Risk and Compliance Oversight is committed to providing the Board and Management with actionable information and the analysis needed to effectively identify, measure, manage, and monitor Risk.

The CRO, or his/her designee(s), shall provide periodic reporting to the ARCC, OCRC, Management Board, and others, as appropriate. These reports may include, but are not limited to:

- Effectiveness and direction of risk management across the Bank;
- Special reports on key emerging topics and trends;
- ICAAP, ILAAP and Recovery Plan results;
- Prudential risk metrics;
- Management actions to meet regulatory orders;
- Risk policy and procedure adherence;
- Risk-related audit and examination highlights;
- New products and services;
- Staffing and organizational effectiveness;
- Progress on significant program initiatives; and
- Management actions on significant risk matters.

3.2 Credit and counterparty risks

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations and arises primarily from loans and advances to banks and customers, foreign exchange forward derivatives, as well as the financial assets held by the Bank.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure. The maximum potential exposure to credit risk at the reporting date is the carrying value of, principally, loans and advances to banks and customers, and other assets receivable from related parties, as disclosed on the statement of financial position. Additional information to credit risk exposure is included in the note 28.

3.2.1 Management of credit risk

The Management Board is responsible for management of credit risk. The Bank's Treasury Banking and Investment policy as well as the Credit policy govern credit risk management.

The basis for effective credit risk management is the identification of existing and potential credit risk inherent to any product or activity. This process includes the gathering of all relevant data concerning the products offered, the counterparties involved and all elements that may influence credit risk. Additional information to credit risk exposure is included in note 28.

3.2.1.1 Investment activity

The Bank's Investment policies contain a set of principles, rules, guidelines and procedures for identifying, measuring, approving and reporting credit risk related to the investment portfolio of the Bank (i.e., counterparty credit risk). The Investment policies establish a consistent framework to best protect customer and corporate assets.

Investment policies are approved by the Bank's Management Board and the PayPal Holdings Inc. Treasurer.

In addition to the investment policies, the Bank performs quantification of counterparty credit risk as part of the ICAAP and Recovery Plan frameworks. Capital requirements for counterparty credit risk are presented to the monthly OCRC and to the ARCC on a quarterly basis.

3.2.1.2 Lending activity

The Bank offers credit products to customers, which gives rise to credit risk.

The Bank has documented internal credit policies that formalize credit risk management process, articulate the objectives to measure, monitor, and manage credit risk related to the issuance and management of credit, and provide general principles guiding credit risk management. The goal of the framework is to:

- Protect the Bank against unwarranted customer and counterparty credit exposures;
- Protect eMoney balances and customer and corporate assets;
- Maintain credit risk at a manageable level and within the Bank's risk appetite; and
- Identify and avoid a material credit failure that exceeds the Bank's risk appetite.

The Bank has put in place an infrastructure to support the credit activity including a Credit Risk Committee to monitor the credit risk environment for the Bank and provide direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the Bank's ability to achieve its goals.

The Bank's Credit Risk Committee comprises the following members:

- Chief Executive Officer (Chairperson);
- Chief Financial Officer; and
- Chief Risk Officer.

The "Head of UK Risk & Compliance" or a designee is a voting member in the case that a change impacts a UK credit portfolio.

Non-voting members of the committee include the Credit Risk Director, Head of Legal, Head of Treasury, Chief Internal Audit Officer and Credit Controller - Finance.

The Bank performs quantification of consumer credit risk as part of the ICAAP framework. Pillar II capital requirements for credit risk are presented to the monthly OCRC and to the ARCC on a quarterly basis.

3.2.2 Non-performing, impaired, past due exposures, and valuation allowance

As at 31 December 2022, the collective impairment and valuation allowance (related to principal and interests) amounts to USD 288,432,382 (2021: USD 224,561,803).

Impairment for specific credit risk is recorded if there is an objective indication that the Bank may not collect the total amounts due based on the contractual terms. Valuation allowance is recorded to reflect fair value for merchant PayPal Working Capital "PPWC" credit portfolio.

EU CR1 - Performing and non-performing exposures and related provisions

In thousand USD	*Gross carrying amount/nominal amount*						*Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions*					
	Performing exposures			*Non-performing exposures*			*Performing exposures – accumulated impairment and provisions*			*Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions*		
		Of which stage 1	*Of which stage 2*		*Of which stage 2*	*Of which stage 3*		*Of which stage 1*	*Of which stage 2*		*Of which stage 2*	*Of which stage 3*
Cash balances at central banks and other demand deposits	***3,923,326***	***3,923,326***	-	-	-	-	-	-	-	-	-	-
Loans and advances	***4,359,549***	***3,822,693***	***333,264***	***121,284***	***698***	***105,195***	***(170,749)***	***(64,038)***	***(106,710)***	***(75,796)***	***(508)***	***(72,656)***
Non-financial corporations	203,593	-	-	15,311	-	-	-	-	-	(2,632)	-	-
Households	4,155,957	3,822,693	333,264	105,974	698	105,195	(170,749)	(64,038)	(106,710)	(73,165)	(508)	(72,656)
Debt securities	***3,067,884***	***3,067,884***	-	-	-	-	***(85)***	***(85)***	-	-	-	-
General governments	2,245,868	2,245,868	-	-	-	-	(18)	(18)	-	-	-	-
Credit institutions	272,245	272,245	-	-	-	-	(12)	(12)	-	-	-	-
Other financial corporations	216,606	216,606	-	-	-	-	(23)	(23)	-	-	-	-
Non-financial corporations	333,165	333,165	-	-	-	-	(32)	(32)	-	-	-	-
Off-balance-sheet exposures	***4,695,828***	***4,496,854***	***198,975***	***7,908***	***0***	***7,908***	-	-	-	-	-	-
Non-financial corporations	38,127	38,127	-	-	-	-	-	-	-	-	-	-
Households	4,657,702	4,458,727	198,975	7,908	0	7,908	-	-	-	-	-	-
Total	***16,046,588***	***15,310,757***	***532,238***	***129,192***	***698***	***113,103***	***(170,834)***	***(64,123)***	***(106,710)***	***(75,796)***	***(508)***	***(72,656)***

Past due exposures are recorded when a counterparty has failed to make a payment when contractually due. Past due exposures on loans and advances to banks are not considered impaired, unless other information is available to indicate a contrary view. The triggering event for reclassifying from "past due" to "impaired" will be identified on a case by case basis.

EU CQ3 - Credit quality of performing and non-performing exposures by past due days

In thousand USD	*Gross carrying amount/nominal amount*							
	Performing exposures			*Non-performing exposures*				
		Not past due or past due ≤ 30 days	*Past due > 30 days ≤ 90 days*		*Unlikely to pay that are not past due or past due ≤ 90 days*	*Past due > 90 days ≤ 180 days*	*Past due > 180 days*	*Of which defaulted*
Cash balances at central banks and other demand deposits	***3,923,326***	***3,923,326***	-	-	-	-	-	-
Loans and advances	***4,359,549***	***4,290,158***	***69,391***	***121,284***	***43,287***	***75,407***	***2,589***	***121,284***
Non-financial corporations	203,593	195,973	7,620	15,311	8,798	4,019	2,493	15,311
Households	4,155,957	4,094,186	61,771	105,974	34,489	71,388	96	105,974
Debt securities	***3,067,884***	***3,067,884***	-	-	-	-	-	-
General governments	2,245,868	2,245,868	-	-	-	-	-	-
Credit institutions	272,245	272,245	-	-	-	-	-	-
Other financial corporations	216,606	216,606	-	-	-	-	-	-
Non-financial corporations	333,165	333,165	-	-	-	-	-	-
Off-balance-sheet exposures	***4,695,828***			***7,908***				***7,908***
Non-financial corporations	38,127			-				-
Households	4,657,702			7,908				7,908
Total	***16,046,588***	***11,281,368***	***69,391***	***129,192***	***43,287***	***75,407***	***2,589***	***129,192***

Loss Allowance

The loss allowance recognised in the period is impacted by variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increase (or decrease) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12 month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to model and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Maturity of exposures

EU CR1-A - Maturity of exposures

In thousand USD	*Net exposure value*			
	≤ 1 year	*> 1 year ≤ 5 years*	*No stated maturity*	*Total*
Loans and advances	1,851,297	407,884	1,975,107	4,234,288
Debt securities	2,019,239	1,048,560	-	3,067,799
Total	***3,870,536***	***1,456,444***	***1,975,107***	***7,302,087***

3.2.2.1 Forborne exposures

The following tables provide an overview of non-performing and forborne exposures as per the Commission Implementing regulation (EU) No 680/2014:

EU CQ1 - Credit quality of forborne exposures

In thousand USD	*Gross carrying amount/nominal amount of exposures with forbearance measures*				*Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions*	
	Performing forborne	*Non-performing forborne*			*On performing forborne exposures*	*On non-performing forborne exposures*
			Of which defaulted	*Of which impaired*		
Loans and advances	***7,882***	***15,785***	***15,785***	***13,372***	***(2,839)***	***(12,110)***
Non-financial corporations	869	2,357	2,357	-	-	(58)
Households	7,013	13,428	13,428	13,372	(2,839)	(12,052)
Total	***7,882***	***15,785***	***15,785***	***13,372***	***(2,839)***	***(12,110)***

3.2.3 Credit risk mitigation techniques

EU CR3 - CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

in thousands of USD	*Unsecured carryingamount*
Loans and advances	8,404,160
Debt securities	3,067,884
Total	***11,472,043***
Of which non-performing exposures	*121,284*
Of which defaulted	*121,284*

3.2.3.1 Statement of financial position netting agreement

The Bank is eligible to present net on the statement of financial position certain financial assets and financial liabilities according to the note 2.4 “Offsetting of financial instruments”. The following tables provide information on the total impact of offsetting for assets and liabilities subject to netting agreements as at 31 December 2022 and 2021.

in thousands of USD	*2022*		
	Gross exposure	*Offsetting impact*	*Net exposure*
Assets	660,239	660,239	-
Liabilities	942,913	660,239	282,674

3.2.3.2 Guarantee agreement

The Bank has entered into a guarantee agreement (the "Guarantee") with PayPal International Treasury Centre (LU) ("ITC"). The Guarantee is eligible as a credit risk mitigation technique for capital adequacy purpose and is not eligible for balance sheet netting under IFRS. As at 31 December 2022, the Guarantee covers up to USD 800 million of net PPPL balances receivables in case of PPPL insolvency. The Guarantee is fully collateralized with securities from ITC investment portfolio.

3.2.3.3 Master netting agreement

The Bank has entered into a master netting agreement ("MNA") with a number of PayPal Group companies. This agreement is structured on a multilateral basis, operating as a mutual guarantee of borrowings by group companies to the Bank. The MNA is neither eligible as a credit risk mitigation technique for capital adequacy purpose, nor for balance sheet netting under IFRS.

Current PayPal Group company participants include:
- PayPal International Limited (SG);
- PayPal Australia (AU); and
- PayPal CA Limited (CA).

According to the MNA, in case of counterparty insolvency, the Bank is allowed to set off any amount it owes (whether actual or contingent, present or future and including, if applicable and without limitation, the liquidation amount and any amount due and payable on or before the liquidation date but remaining unpaid) to a counterparty against any amount due by any other counterparty (whether actual or contingent, present or future and including, if applicable and without limitation, the liquidation amount and any amount due and payable on or before the liquidation date but remaining unpaid) to the Bank.

3.2.4 Credit risk concentration

Credit risk concentration criteria imply that groups of connected or interconnected parties, as defined in Article 4 1.(39) of Regulation (EU) No 575/2013, are regarded as a single counterparty in the management of credit risk. To manage concentration risk, the Bank aims to spread credit risk across several counterparties and countries.

3.2.4.1 Investment activity

In order to ensure that the credit concentrations related to the Bank's credit portfolio remain within the acceptable levels the Treasury Banking and Investment policy establishes the following principles for management of concentration risk:

- The Bank's Head of Treasury is in charge of ensuring that the Bank stays within the regulatory Large Exposure limit (maximum 25% of the Bank's total Own Funds towards any single counterparty and/or group of related counterparties). This is monitored on a daily basis; and
- The Bank has set policy limits at maximum 20% (of the total investment portfolio) exposure on external or internal counterparties as maximum concentration thresholds. Exposure to a single banking institution, financial or corporate counterparty of greater than USD 250 million requires notification to the Bank's CFO, CRO and the Group Treasurer. The lower of these two limits will apply (i.e. 20% or USD 250 million).

3.2.4.2 Lending activity and deferred payment product

The Bank offers a cash advance product to small and medium size businesses in the UK. The Bank also offers a consumer credit product to retail consumers with a revolving credit line in the UK. On the same market, a consumer instalment credit offering was launched in 2020 that is paid back in 3 equal instalments. A similar instalment credit offering was launched earlier that year in France as well that is paid back in 4 equal instalments. On a similar basis to the UK and France instalments products, consumer instalment credit offerings were launched in November 2021 in Spain and Italy that are paid back in 3 equal instalments.

In Germany, the Bank offers a business loan to small and medium size businesses. The Bank offers a 12-months instalment credit product to consumers in Germany, launched in 2019 and well established; in addition to the 12-months instalment credit product, 3-, 6- and 24-months instalment credit products have been offered since 2021.

The Bank distributed deferred payment products (Payment After Delivery and Payment Upon Invoice) which provided flexibility to PayPal account holders and guest users who were charged after the receipt of the purchased item or the invoice. Both products were terminated in 2022 and the existing Payment After Delivery product in Germany was being replaced by a 1-month instalment credit product with additional features that was launched for consumers in Germany in December 2021.

In France and the Netherlands, the Banks offers a business loan to small and medium size businesses on a similar basis to the business loan product in Germany that were launched in April 2022.

The Bank's credit portfolio contains little concentration as it targets large groups of homogeneous customers.

3.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Bank does not apply hedge accounting.

3.3.1 Management of interest rate risk

The Bank's funding policy on all intercompany and credit activities significantly reduces the overall exposure to rate fluctuation. While the current processes are in place the activities are limited to plain vanilla intercompany deposits taking and credit products.

The Bank's limited activity and matched funding on all intra-group activity significantly reduces the overall exposure to rate fluctuations. The Bank does not pay interest on eMoney balances nor does it currently make floating interest loans.

According to the Investment Policy, the Bank is required to maintain its non-trading book weighted average maturity shorter than 365 days. Exceptions to the Investment Policy must be reported and approved by the Management Board and Head of Treasury.

However, the Bank's earnings are interest rate sensitive due to the structure of the Bank's balance sheet whereby liabilities (e.g. eMoney liabilities and other liabilities) are predominantly non-interest bearing as opposed to the assets which are predominantly interest bearing (i.e. cash and cash equivalents, and loans and advances to banks/to customers).

In order to assess the impact of interest rate risk arising from non-trading book activities on the economic value of the prudential own funds, the Bank performs quarterly stress testing on the portfolio of Investment Securities, credit cashflows and e-money cashflows. In accordance with

CSSF Circular 20/762 as amended, credit institutions must submit their non-trading book activities to stress tests on interest rate risk. In the stress test calculation, institutions shall take into account all interest rate risk sensitive instruments in the non-trading book, excluding Tier 1 capital instruments as well as the other perpetual own funds and without any call dates. Institutions should report to CSSF when the change in EVE after a sudden parallel 200 basis points shift (up or down) of the yield curve is greater than 20% of their own funds or the change in EVE after application of additional scenarios 1 to 6 set out in Annex III of EBA/GL/2018/02 is greater than 15% of their Tier 1 capital. The standard shocks to apply on EVE are a sudden increase and a sudden decrease of 200 basis points of all interest rates (parallel shift of the yield curve) as well as the additional standard shocks corresponding to scenarios 1 to 6 set out in Annex III of EBA/GL/2018/02. If, for a given currency, this scenario implies a negative interest rate assumption, the relevant rates should be limited to 0% and a comment should be added in the reporting table. In line with CSSF Circular 20/762, standard shocks lead to negative interest rates, the rates concerned shall be limited to -100 basis points for immediate maturities. This floor shall then increase by 5 basis points per year, eventually reaching 0% for maturities of 20 years and more. However, if observed rates are lower than the current lower reference rate of -100 basis points, institutions should apply the lower observed rate.
Figures below represent the results of the above described stress tests:

in thousands of USD	*2022*	
	Increase	*Decrease*
USD	(29,710)	30,945
EUR	(18,467)	19,281
GBP	(15,761)	16,333
Total	***(63,938)***	***66,559***

In addition to regulatory stress tests, the Bank performs calculation of Pillar II capital requirements for interest rate risk and a series of other stress tests. The stress tests are designed taking into account the characteristics of relevant cash flows (e.g., coupon paying or zero coupon bond, fixed or floating rate bond etc.). The stress tests are conducted by shifting the underlying yield curves according to specifications of the stress tests.

Pillar II capital requirements are calculated as a 10-day 99% VaR multiplied by 3, derived from historical simulation with 5 years of daily historical data. In addition, as part of the ICAAP the Bank calculates sensitivities to various parallel (+/- 100bps, +/- 300 bps) and unparallel (slope-up, slope-down) shifts, as well as key rate durations by currency.

3.3.2 Management of currency risk

Foreign exchange ("FX") exposures could result in unexpected gains or losses depending on the movement of foreign exchange rates. It is the Bank's policy not to speculate in FX markets and the Bank therefore aims to fully hedge identified balance sheet FX exposures to the duration of the exposures.

Foreign exchange derivatives are used to manage currency exposures. Loans, deposits and investments in currencies other than the functional currency of the Bank are hedged in the corresponding currency. The Bank operates within the internal limit of a maximum unhedged position of USD 50 million across currencies and ledgers. Impact of currency fluctuation will be only on the net unhedged position:

in thousands of USD	*Change in currency rate*	*2022*	
		Increase	*Decrease*
EUR	10%	(1,377)	1,377
GBP	10%	3,219	(3,219)

The tables below show all assets and liabilities at carrying value, classified by currency respectively as at 31 December 2022 and 2021.

in thousands of USD	2022				
	USD	**EUR**	**GBP**	**Others**	**Total**
Assets					
Cash and balances with central banks	-	2,308,183	-	-	2,308,183
Financial assets held for trading - Derivatives	-	6,086	3,310	5,565	14,961
Loans and advances to banks	121,261	795,987	659,880	37,511	1,614,639
Loans and advances to customers	-	2,138,671	2,095,617	-	4,234,288
Investment securities	2,525,338	300,976	241,485	-	3,067,799
Property, plant and equipment	1,959	-	-	-	1,959
Deferred tax assets	-	16,817	-	-	16,817
Other assets	385,519	573,823	124,836	859	1,085,037
Total assets	***3,034,077***	***6,140,543***	***3,125,129***	***43,935***	***12,343,683***
Liabilities					
Financial liabilities held for trading - Derivatives	-	568	93	302	963
eMoney liabilities	1,072,508	5,907,032	1,763,766	511,844	9,255,150
Current income tax liabilities	-	22,063	-	-	22,063
Deferred tax liabilities	-	6	-	-	6
Other liabilities	229,085	817,526	641,510	64,782	1,752,904
Total liabilities	***1,301,593***	***6,747,196***	***2,405,369***	***576,928***	***11,031,087***
Net forward exchange contract positions	***(462,071)***	***592,886***	***(687,473)***	***556,659***	***-***
Net balance sheet positions	***1,270,412***	***(13,768)***	***32,287***	***23,665***	***1,312,596***

Currencies are disclosed separately when they represent more than 5% of the statement of financial position in gross amounts. Currency exposures are managed and hedged daily accordingly.

3.3.3 Management of the trading risk

No trading risk is taken by the Bank. It is the Bank's policy not to hold a trading book.

3.4 Liquidity risk

The primary goal of the Bank's liquidity management is to ensure that the Bank maintains sufficient cash and liquid assets to meet its current and future financial obligations at all times, in both normal and stressed circumstances, for every currency in which it has an exposure.

In the unlikely event that the Bank needs to manage a potential liquidity crisis, the Bank has prepared a Liquidity Contingency Plan detailed in the the Liquidity Management Policy. This plan comes into effect whenever the liquidity position of the Bank is threatened by market related or Bank specific circumstances. The main objective is to manage the liquidity sources of the Bank without endangering its business franchise, while limiting excessive funding costs.

The Bank's risk appetite sets out the limits with respect to capital and liquidity risks. Internal limits are also set for CET1 Ratio, Solvency Ratio, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Finding Ratio as part of the Recovery Plan framework (traffic-light approach).

3.4.1 Liquidity Policy and Funds Management

The Liquidity Management Policy considers the recommendations of the European Banking Authority (“EBA”) as disclosed in the Annex of the CSSF Circular 09/403 while applying the proportionality principle.

The Liquidity Management policy sets out a robust framework for liquidity risk management at the Bank. Notably included in this policy:

- Bank's Authorized Management and Head of Treasury oversight responsabilities for Liquidity and Fund Management;
- Procedures establishing an effective monitoring of the liquidity condition of the Bank, to ensure the Bank has sufficient funding capacity to meet its liquidity needs;
- Ensuring key prudential ratios such as solvency, liquidity and large exposures remain compliant within the metric defined by the local regulator;
- The use of liquidity risk management tools such as limits and liquidity scenario stress testing; and
- Monitoring, implementation and a review framework by the various stakeholders of this policy.

The adequacy of the liquidity position of the Bank is tested as part of the ILAAP and the Recovery Plan.

3.4.2 Contingency liquidity plan

As part of the Liquidity Management Policy, the Bank has implemented the Contingency Liquidity Plan (“CLP”). The main objective of the CLP is to minimize the liquidity repercussion of a liquidity crisis by coordinated action demonstrating sufficient funding capacity that can replace any lost funding in the shortest possible time, while reducing risk and limiting reputational damage.

The Bank maintains a highly liquid portfolio of financial assets; at 31 December 2022, approximately 10% of the portfolio is made up of cash and cash equivalent, while 90% has an initial maturity above 3 months.

In the unlikely event that more liquidity is needed, the Bank may borrow funds from other international entities domiciled outside the US. The Bank’s Head of Treasury is responsible for managing and implementing these borrowings as per the Group Treasury Intercompany Loan policy.

3.4.3 Sources of liquidity

Normal sources of liquidity

Customer eMoney balances are reinvested with highly rated banking counterparties or high-quality liquid assets. PayPal issues eMoney by charging customer’s credit card and debiting their bank account. PayPal makes eMoney immediately available to the recipient customer within the PayPal system and receives funds from card processors or banks generally within the following business days.

Customers can redeem their PayPal eMoney balances to their local bank account. This process usually takes up to a few business days depending on the local bank clearing cut off time. Over and above the normal sources of funding described above, the Bank has access to additional sources of liquidity outlined below.

The CSSF granted the Bank on 25 August 2022 a temporary authorization to use up to 50% of eMoney balances for financing its credit activity.

Short-term borrowings from the PayPal Group

In the unlikely event that more liquidity is needed, or it is deemed that an injection of capital is not the correct course of action, the Bank may borrow funds from entities of the Group.

Borrowings of this nature are not used for a consecutive period of longer than 180 days, unless approved by the Bank's Management Board and the Bank's CFO.

As a member of the Group, the Bank relies on the Group as the lender of last resort. At its disposition, the Bank also has two overdraft facilities with external banks with a limit of USD 90 million equivalent. The Bank has also access to the Group "Credit facility" with JPMorgan Chase Bank, N.A. as administrative agent, for USD 750 million. As part of this facility the Bank will be a subsidiary borrower alongside with PayPal Inc. and will have access to a tranche of the facility in the amount of up to USD 750 million. Any borrowing through the facility would be guaranteed by PayPal Holdings Inc..

The Group's liquidity management approach looks to ensure that the Bank has the ability to meet its liabilities on a timely basis.

As indicated in note 3.4.2 as part of the CLP, the Bank can also draw down on the remaining USD 25 million subordinated debt facility with PPPL.

3.4.4 Exposure to liquidity risk

The table below shows the Bank's assets and liabilities classified into relevant maturity grouping based on the remaining period to the contractual maturity date. Demand deposits, overnight deposits, Due to banks, eMoney liabilities and most of other liabilities are reported in the column "Up to 1 month".

in thousands of USD	2022					
	Up to 1 month	*1-3 months*	*3-6 months*	*6-12 months*	*Above 12 months*	*Total*
Financial liabilities held for trading - derivatives	963	-	-	-	-	963
eMoney liabilities	9,255,150	-	-	-	-	9,255,150
Other	1,734,333	40,634	-	-	-	1,774,967
Total financial liabilities	***10,990,446***	***40,634***	***-***	***-***	***-***	***11,031,080***
Cash and balances with central banks	2,214,520	-	-	-	93,662	2,308,183
Financial assets held for trading - Derivatives	14,961	-	-	-	-	14,961
Loans and advances to banks	1,614,639	-	-	-	-	1,614,639
Loans and advances to customers	-	1,285,036	310,221	256,040	2,382,992	4,234,288
Investment securities	348,087	496,659	912,235	262,258	1,048,560	3,067,799
Other	1,051,513	33,525	-	-	-	1,085,038
Total financial assets	***5,243,720***	***1,815,220***	***1,222,456***	***518,298***	***3,525,214***	***12,324,908***

3.4.5 Encumbered and unencumbered assets

As at 31 December 2022 the encumbered asset represents the minimum reserve requirement ("MRR") held with Banque Centrale du Luxembourg. In accordance with article 19 of the Statute of the European System of Central Banks and of the European Central Bank, the Bank is required to place minimum prescribed amount on deposit with the central bank where the Bank operates.

EU AE1 - Encumbered and unencumbered assets

In thousand USD	*Carrying amount of encumbered assets*	*Carrying amount of unencumbered assets*		*Fair value of unencumbered assets*	
			of which EHQLA		*of which EHQLA*
Assets of the reporting institution	***93,662***	***12,248,886***	***4,773,108***		
Debt securities	-	3,067,799	2,558,588	3,067,799	2,558,588
of which: issued by general governments	-	2,245,850	2,245,850	2,245,850	2,245,850
of which: issued by financial corporations	-	488,815	1,194	488,815	1,194
of which: issued by non-financial corporations	-	333,133	311,544	333,133	311,544
Other assets	93,662	9,181,088	2,214,520		

EU AE2 - Collateral received and own debt securities issued

In thousand USD	*Fair value of encumbered collateral received or own debt securities issued*	*Unencumbered*
		Fair value of collateral received or own debt securities issued available for encumbrance
TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	***93,662,364***	

3.4.6 Liquidity Coverage Ratio

During the course of 2022, the Bank complied with the CSSF liquidity requirement, which requires a minimum Liquidity Coverage Ratio (“LCR”) of 100%. Over 2022, LCR was:

EU KM1 - Key metrics template

in thousands of USD	*31 December 2022*	*30 September 2022*	*30 June 2022*	*31 March 2022*
Liquidity Coverage Ratio				
Total high-quality liquid assets (HQLA) (Weighted value -average)	4,612,666	4,255,092	5,341,281	6,007,648
Cash outflows - Total weighted value	4,832,945	3,786,312	4,748,464	5,284,903
Cash inflows - Total weighted value	2,618,739	490,377	2,407,682	2,903,096
Total net cash outflows (adjusted value)	2,214,207	1,355,591	2,340,782	2,381,807
Liquidity coverage ratio (%)	208.32%	313.89%	228.18%	252.23%

Year-over-year, High quality liquid assets (“HQLA”) decreased by USD 1.9 billion. The reduction has been mainly driven by transfers of from Level 1 assets to fund the Bank’s credit activity. The decrease in net liquidity outflows is mainly driven by the decrease of USD 0.9 billion in eMoney liabilities and the increase of USD 0.7 billion of other assets, partially offset by the increase of USD 0.6 billion in other liabilities and the decrease of cash at bank by USD 0.2 billion.

Over the year 2022 and for each quarter-end, the 12-months average of the Bank's LCR was:

EU LIQ1 - Quantitative information of LCR

In thousands of USD	*Total unweighted value (average)*				*Total weighted value (average)*			
Quarter ending on	*31 Dec. 2022*	*30 Sep. 2022*	*30 Jun. 2022*	*31 Mar. 2022*	*31 Dec. 2022*	*30 Sep. 2022*	*30 Jun. 2022*	*31 Mar. 2022*
Number of data points used in the calculation of averages	*12*	*12*	*12*	*12*	*12*	*12*	*12*	*12*
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					**5,229,171**	**5,689,393**	**6,119,863**	**6,528,016**
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of w hich:	2,706,945	2,700,089	2,735,830	2,786,937	457,153	455,953	478,770	487,714
Less stable deposits	*2,706,945*	*2,700,089*	*2,735,830*	*2,786,937*	*457,153*	*455,953*	*478,770*	*487,714*
Unsecured w holesale funding	6,816,665	7,134,765	7,348,646	7,486,529	2,739,340	2,862,350	2,951,224	3,015,820
Non-operational deposits (all counterparties)	*6,816,665*	*7,134,765*	*7,348,646*	*7,486,529*	*2,739,340*	*2,862,350*	*2,951,224*	*3,015,820*
Additional requirements	40,301	46,796	58,158	66,553	40,301	46,796	58,158	66,553
Outflows related to derivative exposures and other collateral requirements	*40,301*	*46,796*	*58,158*	*66,553*	*40,301*	*46,796*	*58,158*	*66,553*
Other contractual funding obligations	1,518,917	1,588,155	1,533,922	1,503,363	1,517,649	1,586,214	1,531,701	1,500,944
Other contingent funding obligations	4,003,329	3,864,809	4,096,573	3,908,642	-	-	-	-
TOTAL CASH OUTFLOWS					**4,754,442**	**4,951,313**	**5,019,854**	**5,071,030**
CASH - INFLOWS								
Inflow s from fully performing exposures	2,592,916	2,762,864	2,976,281	2,992,206	2,423,845	2,572,051	2,785,870	2,809,536
Other cash inflow s	7,542	6,001	3,941	3,084	7,542	6,001	3,941	3,084
TOTAL CASH INFLOWS	**2,600,458**	**2,768,866**	**2,980,222**	**2,995,289**	**2,431,386**	**2,578,052**	**2,789,811**	**2,812,620**
Inflows subject to 75% cap	*2,600,458*	*2,768,866*	*2,980,222*	*2,995,289*	*2,431,386*	*2,578,052*	*2,789,811*	*2,812,620*
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					***5,229,171***	***5,689,393***	***6,119,863***	***6,528,016***
TOTAL NET CASH OUTFLOWS					***2,323,056***	***2,373,260***	***2,230,043***	***2,258,411***
LIQUIDITY COVERAGE RATIO					***225.10%***	***239.73%***	***274.43%***	***289.05%***

3.4.7 Net Stable Funding Ratio

During the course of 2022, the Bank complied with a the CSSF liquidity requirement, which requires a minimum Net Stable Funding Ratio ("NSFR") of 100%. At 31 December 2022, NSFR was:

EU LIQ2 - Net Stable Funding Ratio

In thousands of USD	*Unweighted value by residual maturity*				*Weighted value*
	No maturity	*< 6 months*	*6 months to < 1 year*	*≥ 1 year*	
Available stable funding (ASF) Items					
Capital items and instruments	1,229,253	-	-	-	1,229,253
Ow n funds	1,229,253	-	-	-	1,229,253
Retail deposits		2,848,788	-	-	2,563,909
Less stable deposits		2,848,788	-	-	2,563,909
Wholesale funding:		7,480,192	-	-	3,203,181
Other w holesale funding		7,480,192	-	-	3,203,181
Other liabilities:	-	702,557	-	-	-
All other liabilities and capital instruments not included in the above categories		702,557	-	-	-
Total available stable funding (ASF)					**6,996,343**
Required stable funding (RSF) Items					
Total high-quality liquid assets (HQLA)					160,442
Performing loans and securities:		3,269,240	300,249	2,743,667	3,470,804
Performing securities financing transactions w ith financial customer collateralised by other assets and loans and advances to financial institutions		1,615,144	-	-	161,514
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of w hich:		1,575,912	254,133	2,358,755	2,919,965
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		78,184	46,116	384,911	389,324
Other assets:	-	1,135,537	1,907	117,899	296,474
NSFR derivative assets		13,998			13,998
NSFR derivative liabilities before deduction of variation margin posted		20			1
All other assets not included in the above categories		1,121,519	1,907	117,899	282,475
Off-balance sheet items		-	-	7,908	7,908
Total RSF					**4,029,291**
Net Stable Funding Ratio (%)					***173.64%***

Over the year 2022, NSFR was:

EU KM1 - Key metrics template

in thousands of USD	*31 December 2022*	*30 September 2022*	*30 June 2022*	*31 March 2022*
Net Stable Funding Ratio				
Total available stable funding	6,996,343	6,678,286	7,088,970	7,251,664
Total required stable funding	4,029,291	3,555,633	3,820,332	3,712,894
NSFR ratio (%)	173.64%	187.82%	185.56%	195.31%

3.5 Other Risks

3.5.1 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human error or due to external events such as natural disasters and fraud. This risk is inherent to the nature and complexity of the Bank's core business transactions.

The following risks were identified as requiring a capital allocation in the ICAAP:

- Legal risk;
- Regulatory and Financial Crimes risk;
- Continuity of Operations risk;
- Extended Enterprise / Third Party risk;
- Technology risk;
- Information Security risk; and
- Data Privacy risk.

The following other operational risks impacting the Bank have been assessed. Upon carrying out this assessment it was concluded that an additional capital allocation would not contribute to risk mitigation. Instead, the risks would be best mitigated by having sound processes in place:

- Human Capital risk;
- Internal Fraud risk;
- External Fraud risk;
- Safety and Physical Security risk;
- Internal Process risk; and
- Tax risk.

The details on the material operational risks with respect to Pillar II capital requirements are provided below.

3.5.1.1 Legal risk

Legal risk refers to the risk of loss associated with intellectual property rights allocation and contracting with external parties, regulatory or legal action, disputes for or against the company, failure to correctly document, enforce or adhere to contractual arrangements, inadequate management of non-contractual rights, or failure to meet non-contractual obligations.

The risks managed by the Bank's Legal team include compliance with existing and new legislation and regulation, both in terms of compliance of the Bank's products and services and the compliant operation of the Bank itself, risks arising from the Bank's extensive contractual relationships with merchants, channel partners, Bank processors and other service providers and the risk of breaches of contractual requirements, risks related to a wide range of consumer protection requirements, including the risk of the Bank's user agreement with its customers, being non-compliant or unenforceable, and the risk of litigation, claims and regulatory sanction in relation to the business of the Bank and its products. It also includes the risk of non-compliance with company law in relation to the corporate administration, company secretarial and governance requirements of the Bank and the various PayPal entities related to the Bank.

The Bank has appointed a Head of Legal to oversee the legal risks of the Bank and ensure adequate measures are taken to ensure that the Bank continues to operate in line with legal and regulatory requirements.

3.5.1.2 Regulatory and Financial Crimes risk

The Bank defines regulatory and financial crimes risk as risks related to the structure, processes, and capabilities that allow the Bank to meet regulatory requirements and prevent financial crimes.

The Bank's local Compliance function, as part of an enterprise level risk and compliance programme, works to ensure that the Bank complies with all applicable laws and regulations. CCO of the Bank has full delegated responsibility for ensuring that adequate policies, processes and systems are in place to ensure the Bank meets its regulatory requirements, including adequate measures to keep the Bank operating in line with regulatory requirements associated with the operating licenses granted to the Bank by the CSSF and other relevant financial services regulators.

The Bank is committed to complying with all rules and regulations governing its services. The Bank's Compliance function works to ensure that the Bank complies with all applicable laws and regulations. The CCO of the Bank is responsible for ensuring that adequate processes are in place to ensure full compliance. The CCO also identifies best practices within the market (where relevant) to be incorporated in processes, policies and procedures.

3.5.1.3 Continuity of Operations risk

The Bank defines continuity of operations risk as the risk of the loss, disruption, or compromise of the infrastructure, business processes, facilities, or employees that may threaten PayPal's ability to sustain operations and provide essential products or services in the event of a natural disaster, power outage, site outage, etc. A concentration of resources in certain locations could increase the overall impact should a significant disruptive event occur.

The Resiliency, Incident & Issue Management Team ("RIIMT") provides the Bank with the framework to oversee the business continuity, disaster recovery, incident, and crisis management risks of the Bank and ensures that adequate measures are taken to keep the infrastructure of the Bank operating in line with business requirements. The implementation of the framework allows the Bank to ensure that all business functions are prepared to prevent impacts from a potentially disruptive event, and to maintain business operations at normal or near-normal performance should a disruptive event occur. Information related to the status and execution of resiliency program is reported to the OCRC on ad-hoc basis.

During 2021, the Bank identified all critical business functions, ensured the business impact analyses were performed, Business Continuity Plans were developed in the tool (Continuity Logic) and that the recovery strategies for the critical business functions were exercised. As part of disaster preparedness, Local Event Management/Critical Incident Team training was conducted for senior members of the Bank and an exercise was completed.
Employee safety is always a main area of focus and Business Continuity Plans were activated and currently remain in place for all countries known to be impacted by COVID-19 and its variants.

3.5.1.4 Extended Enterprise / Third Party risk

The Bank defines defines the extended enterprise/third party risk as risks posed by the Bank's dependence on or association with third parties across its full range of operations, or by a failure to optimize the value of the third-party ecosystem.

The Bank outsources certain key functions to Group companies and the Management Board has put in place SLA to manage these services provided. SLA performance is monitored on a monthly basis and reported as a key part of the Bank's Affiliate Services program. The performance reporting is undertaken by the Bank's Outsourcing Manager. An appropriate Outsourcing Policy is in place, in line with CSSF Circular 12/552 as amended, and all SLA are reviewed annually to validate the respective input, and ensure they are up-to-date and in line with business requirements.

The following control activities are performed with respect to all material outsourcing relationships:

- Each SLA provides for annual reviews of service description and performance levels, with monthly monitoring metrics (KPI) defined within each SLA;
- The procedures for monitoring the performance and evaluation of service providers are as follows:
  - The Bank's Outsourcing Manager implemented a process to regularly monitor performance under outsourcing arrangements. Each SLA is rated based on its performance with respect to the defined service levels using a traffic-light approach. An additional assessment related to Outsourcing Impact is performed in case Service Levels are not sufficiently met, to arrive at the rating;
  - The performance of intra-group service providers under the SLAs is reported monthly to the Authorized Management via the OCRC and quarterly/annually to the ARCC; and
  - On an annual basis (at minimum), the Bank's Outsourcing Manager ensures that a formal review of the outsourcing arrangements is undertaken and a report is submitted to both the Authorized Management and to the ARCC, for approval of the annual program.

In addition to the controls performed by the Outsourcing team, the Bank's Credit team performs Monthly Business Review with US Credit team.

3.5.1.5 Technology risk

The Bank defines technology risk as the risk of loss resulting from ineffective technology infrastructure, information security or data management. These scenarios would impact current and future technology requirements from the business, and possible shutdown of the PayPal website. Technology includes front-end customer sites, the payment engine, and back-end technology needed to run the business.

Investments have been made to evolve PayPal's technology through its re-platforming initiative from being fit for purpose to becoming best in class. The Bank has appointed an IT Officer to oversee the information technology risks of the Bank and ensure adequate measures are taken to keep the infrastructure of the Bank operating in line with business requirements. Furthermore, risks arising from IT Systems shall be reported to the OCRC.

3.5.1.6 Information Security risk

Information security risk refers to the risk that data is exposed, exfiltrated, altered, or destroyed due to insecure management or unauthorized/inappropriate use.

These risks encompass data breach, software and site security, and operations security (e.g., prevention of denial of service attacks, viruses, etc.), whereby customer data could be compromised through employee misconduct, negligence, or external access obtained to PayPal systems and/or site functionality is hacked or exploited by an outside party via code or feature flaws, system vulnerabilities or other means.

The Bank has appointed an Information Security Officer to oversee the information security risks of the Bank and ensure adequate measures are taken to keep the information infrastructure of the Bank operating in line with business requirements. The roles and responsibilities associated with Information Security risk management are available in the Bank's Information Security Policy.

3.5.1.7 Data Privacy risk

The Bank defines privacy risk as the risk of inappropriate processing or loss of personal information that may result in financial losses, regulatory violation, and decreased customer and employee trust. The risk can materialize as a result of regulatory violation, loss, and fines from failing to process, administer or otherwise safeguard consumer data in a manner consistent with regulatory requirements.

Privacy and banking secrecy are fundamental elements of the Bank's value proposition. As such, a breach or incident resulting in a significant loss of personal data may lead to financial sanctions, loss of license, increased regulatory oversight, decreased revenue resulting from potential litigation or loss of business relationships, as well as a negative impact on the PayPal brand. Therefore, a number of privacy controls are in place to mitigate such loss.

Additionally, the Bank has appointed a European Data Protection Officer to oversee the data protection and banking secrecy compliance risks of the Bank and to ensure adequate measures are taken to keep the Bank operating in line with regulatory requirements associated with the operating licenses granted to the Bank by the CSSF. The roles and responsibilities associated with privacy risk management are available in the Bank's Privacy Policy and Global Privacy Standards. Furthermore, Data Privacy risks are reported to the OCRC on a monthly basis.

3.5.2 Strategic risk

Strategic risk refers to the risk of wrong business strategy/product investments, as well as material changes in the market/competitive environment. In order to mitigate strategic risk, the Bank has in place a comprehensive strategic decision making process providing respective assessment metrics to management and has allocated dedicated resources to support appropriate decisions in the best possible manner.

The Bank identifies the following strategic risks:

- Reputational Risk;
- Competitiveness Risk;
- Business Strategy Risk including:
  - Product Risk;
  - Business Model Risk;
  - Corporate Governance Risk; and
  - Customer Satisfaction Risk.
- Geopolitical Risk; and
- Climate and Environmental Risk.

The respective teams in charge of managing the risks, as well as processes in place ensure that the Bank's exposures to Strategic Risk are monitored and controlled on on-going basis.

4 Management body's selection and Remuneration Policy

4.1 External directorship

As at 31 December 2022 one management board member holds one directorship position outside PayPal Group.

4.2 Appointment of the Members of the Management body

The Remuneration & Nomination Committee of the Bank (the "Committee") is a specialized committee comprising at least three members of the Supervisory Board who are not members either of the Authorized Management (the "Management Board") or of the Bank's staff. The Committee may invite the Bank's CEO, the Chief Human Resources ("HR") Officer of PayPal Holdings, Inc., other Senior HR Leaders of PayPal Holdings, Inc., members of the Global Rewards team and the HR Business Partner Director of the Bank or any other officer desired by the Committee or its chairperson to attend any meeting of the Committee.

The Committee's primary function is to ensure the Supervisory Board and specialized committees of the Board have the required skills necessary for a regulated institution, including in relation to risk management, legal and regulatory compliance and internal control. When making recommendations for the appointment of Authorized Management and key internal control functions, it shall engage a broad set of qualities and competences, and must include the following criteria:

- Sufficient time commitment;
- Limitation of directorships;
- Sufficient knowledge (and where necessary, theoretical knowledge), skills and experience, individually and collectively, in the field of banking and financial activities, especially in the Management Body member's/KFH's field of responsibility with respect to applicable standards, that is commensurate with PayPal Europe's nature, scale and complexity of the activities and risks;
- Reputation, honesty, integrity;
- Independence of mind; and
- Diversity must also be taken into account when determining suitability, including the aspects of diversity. The aspects of diversity to be considered are the characteristics of the members of the Management Body, including their age, gender, geographical origin, and educational and professional background. The promotion of diversity shall be based on principle of non-discrimination and equality, including equal opportunities, based on gender, sexual orientation, change of sex, gender identity, skin colour, social origin, genetic features, language, ways of life, beliefs and opinions, political or other, property, birth, family situation, health status, disability, age, membership or non-membership, actual or assumed, of an ethnic group, nation, race, minority or religion.

In addition each member was duly authorized to act as director by CSSF, which assessed their professional standing, experience and reputation in accordance with the law of 5 April 1993 on the financial sector, as modified.

In accordance with the Bank suitability policy, all members of the Management Body and Key Function Holders should be re-assessed for suitability annually and when events make a re-assessment necessary in order to verify ongoing suitability. Assessments and results must be recorded in writing.

4.3 Remuneration policy

4.3.1 Governance & Decision Making Process

The Bank is an indirect subsidiary of PayPal Holdings, Inc. PayPal establishes compensation in accordance with the guidelines and framework set forth by the Compensation Committee of the Board of Directors of PayPal Holdings, Inc. ("the PayPal Compensation Committee") and its subsidiaries.

The Remuneration & Nomination Committee of the Bank also provides assistance and guidance to the Supervisory Board of the Bank in fulfilling its oversight responsibilities with respect to the Bank's remuneration policy. The Bank's remuneration policy covers members of the administrative and management bodies of the Bank as well as those categories of staff whose professional activities have a material impact on the risk profile of the Bank ("Material Risk Takers" or "Identified Staff"). The Remuneration & Nomination Committee meets in person at least four times per year at a time determined by the Committee Chairperson, with further meetings to occur when deemed necessary or desirable by the Committee and/or its chairperson. During the year ended 31 December 2022, the Committee met seven times.

Employees' base salaries are determined within the established salary range based on skills, experience and performance. Each year PayPal may establish a merit/adjustment/promotion budget based on market movement and affordability to prepare for a base salary pay and promotion review. As part of this process, managers make recommendations for employee's pay. In 2022, pay changes related to promotions or merit occured in April, or on an exception basis during the rest of the year within the budget provided or as required by local law. Recommendations on remuneration are made at least on an annual basis in anticipation of any government mandated increase and in conjunction with PayPal's shareholder and parent entities. Government mandated pay increases are implemented and are effective no later than the date required by regulations.

Individual pay and promotion decisions are reviewed to ensure they are within guidelines and are fair and equitable across the employee population. Final approvals are required from PayPal's Global Head of People and PayPal's CEO.

PayPal publishes comprehensive details of its company-wide compensation, benefits and performance management policies and practices on the company intranet and on paypalbenefits.com, where they are freely accessible to all employees. Accordingly, staff members know in advance the criteria that will be used to determine their remuneration. PayPal Europe's Remuneration Policy as well as the Annual Incentive Plan and the Luxembourg Variable Pay Plan are freely available on the intranet, to all Bank's employees.

The PayPal Europe's Remuneration Policy is being reviewed on annually basis with the support of Control Functions. The Policy is reviewed by the Committee and approved by the Board.

4.3.2 Remuneration philosophy

PayPal's compensation philosophy helps define how compensation programs support the goals and the culture of the organization. All elements of compensation and benefits are included i.e. base pay, incentive pay, stock programs, and all types of benefits.

PayPal Europe's compensation philosophy respects the principle of equal pay for men and women and staff of any diverse gender for equal work or work of equal value and ensures that none of its compensation components is built around gender.
Salary ranges and benefits are gender neutral, meaning that these are designed and determined in accordance with the value of the position of the relevant staff as documented in the staff job descriptions taking into account the professional experience, the organizational responsibility, the

tasks and duties assigned to the position as well as the type of activities and market data, all irrespective of the staff gender.
Variable compensation plans are gender neutral so that gender has no influence whatsoever on the eligibility, performance assessment criteria, award and pay-out condition or the amount awarded as variable remuneration.

As a matter of principle, PayPal supports levels of remuneration and compensation necessary to attract, retain and motivate high quality people required to lead, manage and serve PayPal in a competitive environment, while also balancing this against the overall risk management framework of PayPal. PayPal considers that market appropriate levels of remuneration n are essential to enhance the long-term interests of its stakeholders, including its shareholder and parent entities.

The objectives of PayPal Europe's Remuneration Policy are as follows:

- to promote sound and effective risk management;
- to ensure that total variable remuneration does not limit PayPal Europe's ability to strengthen its capital base;
- to encourage behaviours that do not induce excessive risk-taking;
- to be in line with the business strategy, objectives, values and long-term interests of PayPal Europe;
- to align remuneration with prudent risk-taking, the outcomes of business activities, the risks related to those activities and the time necessary for outcomes to be reliably measured;
- to attract, retain and motivate a leadership team capable of managing and leading the business successfully, and to drive strong long-term organizational growth in line with PayPal Europe's and PayPal's global strategy and business objectives;
- to deliver a balanced solution addressing all elements of total pay – base pay and other benefits offered by PayPal as well as short-term incentive plans offered by PayPal Europe and equity-based compensation granted by PayPal Holdings;
- to contribute to appropriate attraction and retention strategies for the European Leadership team and other key employees;
- to understand and account for how short-term incentive awards offered by PayPal Europe and longer-term performance objectives factor into the desire to drive successful organizational performance;
- to ensure that there is transparency and fairness in remuneration practices; and
- to ensure that remuneration practices are gender neutral.

Pay for performance

To support its principles, PayPal has a robust and transparent framework in place to ensure that the level and composition of remuneration is reasonable and both clearly and measurably linked to performance, to enhance the long term interests of the Bank.

Managers and employees have a shared responsibility in the performance evaluation process with managers having the primary responsibility. Employees meet with their managers to establish goals and objectives for the year.

Goals are generally documented in a performance management tool and are agreed upon by employee and manager. Goals may be individual or shared/group goals. PayPal encourages SMART (specific, measurable, achievable, result-based, time-bound) goals.

Performance calibration sessions take place at the end of the performance review to review annual variable compensation proposals and calibrate across the organization - additional performance reviews can be organized on a quarterly basis depending on the business' needs. After calibration, where an employee is considered relative to his/her peers, leaders have the responsibility to inform the direct manager of any changes to recommendations.

Discretion related to PayPal incentive plans and equity programs is reserved to the PayPal Holdings Inc. Compensation Committee, as appropriate. A discussion and analysis of the compensation programs in which PayPal's named executive officers participate is filed in PayPal's annual proxy statement, which is publicly-filed with the US Securities and Exchange Commission ("SEC") and can be viewed by visiting PayPal's investor relations website at *https://investor.paypal-corp.com/annuals-proxies.cfm*.

4.3.3 Design characteristics & parameters

4.3.3.1 Remuneration structure

Total remuneration is made up of fixed and variable components. As a general rule, the fixed component of remuneration represents a significant proportion of total remuneration. Fixed remuneration reflects the relevant professional experience and organizational responsibility of staff and is predetermined, non-discretionary and non-revocable.

Under no circumstance shall actual variable pay of Identified Staff exceed the lesser of the level approved by the shareholders of the Bank and 200% of fixed pay. The Bank will annually consider whether it is appropriate to increase the variable-to-fixed pay ratio limit to above 100% and, if so, will request shareholder approval in accordance with the Article 38-6(g) of Law of 5 April 1993 on the financial sector, as amended. Any such increase is contingent on obtaining shareholder approval.

For the performance year 2022, approval for a variable-to-fixed pay ratio above 100% has been sought and obtained for five Identified Staff. Those approved ratios would range from 103 to 145%,.

The Bank may withhold bonuses entirely or partly when individual performance criteria are not met by the individual concerned, or when the PayPal business does not meet threshold financial requirements set at the beginning of the performance period. As part of the annual review 2022/2023, neither malus nor claw back decisions has been made for current or former Identified Staff.

4.3.3.2 Fixed remuneration

Base salary

Base salary ranges create a hierarchy of job grades that define the compensation levels and ranges for groups of jobs within the organization and are built and maintained based on local market pay. Ranges are reviewed annually based on data from benchmark surveys and input from outside consultants. Adjustments to salary ranges are reviewed and approved by PayPal, Inc.'s VP, Global Compensation.

Annual base salary is delivered in 12 monthly instalments. For those employees falling under the Collective Bargaining Agreement for the Banking sector, the 13th month is included in the 12 monthly instalments base salary. There is no 13th month allowance.

Special Allowances

Occasionally, special allowances may be available to key employees. For example, if PayPal Europe requests that an employee relocate or an employee accepts a role in a new location, PayPal Europe may offer a special allowance if the employee's family does not relocate to the new location. Any such allowance is based on what is reasonable and customary under the circumstances. Special allowances are not intended to be a windfall for the employee; instead, they are intended to account for the employee's unique personal situation and to protect the employee from financial loss as a result of the business request or change. Depending on the particular circumstances, special allowances may include a housing allowance, transportation allowance, travel allowance, tax support and/or maintenance of health benefits.

Role-based allowances

For selected roles, role-based allowances are made available to senior employees. Any such allowances must meet the following criteria:

- Allowances are not in any way performance-based;
- Allowances are tied to a role or organisational responsibility and remain in effect as long as no material changes are made regarding the responsibilities and authorities of the role;
- Allowance amounts are determined based on the job level, expertise, skills and potential of eligible employees; and
- Any two staff members fulfilling the same role or having the same organisational responsibility and who are in a comparable situation would be entitled to comparable allowances.

Benefits

Benefits form part of fixed remuneration. Following is a summary of the main benefits PayPal Europe provides its Luxembourg based employees:

- A defined contribution pension scheme is part of the benefits package for Luxembourg employees. PayPal Europe's contribution amounts to 3% of base salary up to the applicable social security ceiling and to 11% on the base salary above the ceiling. PayPal Europe does not provide defined benefit or discretionary pension schemes;
- Life, short term disability and long-term disability insurance is provided by PayPal Europe. PayPal Europe pays 100% of the premium costs for employee coverage;
- Health care insurance is provided. Both employees and PayPal Europe make a contribution in Luxembourg in accordance with social security requirements;
- Meal vouchers are available to all employees. PayPal Europe contributes 8.4 EUR and the employee contributes 2.4 EUR (deducted from the employee's salary) for each meal voucher, for a total face value of 10.8 EUR. On a monthly basis, 18 meal vouchers are delivered to those who participate. There are no other standard allowances provided to employees;
- Various types of leaves of absence and paid time off (for example, sabbatical leave, parental bonding leave and related payments, wellness days, crisis leave etc.);
- A gym membership subsidy of up to EUR 66 per month is available to all employees on application; and
- Employee Stock Purchase Plan (ESPP) is available to all employees and provides the opportunity to buy shares of PayPal Holdings Common Stock at 85% of the Fair Market Value on either the first day of the Offering Period or the actual Purchase Date, whichever is the lower.

Commuter Policy

Employees who are employed in Luxembourg but whose home is not in Luxembourg and is not within normal commuting distance on a daily basis can be considered for additional support under the Commuter Policy. The Policy applies in principle only to employees in Director and above level (unless exceptional circumstances) and sets the working requirements (including the minimum working time spent in Luxembourg) as well as the level of commuting support to which Commuters are entitled. As per the Policy, Commuters are eligible to receive financial and/or organizational support in relation to housing, transportation, tax preparation and medical support.

4.3.3.3 Variable remuneration

Variable remuneration, which is provided in addition to base salary, is designed to reward performance based on the achievement of specific performance criteria. The performance criteria are a combination of individual performance goals and company performance goals. The performance assessment covers both qualitative and quantitative aspects. The variable remuneration and individual performance of the Identified Staff is overseen by the Committee. The

Committee has the discretion to propose to the Supervisory Board of the Bank to reduce or eliminate variable remuneration and to apply malus or claw back measures.

Depending on an employee's job level and his/her Identified Staff status, variable remuneration for the Bank's employees in Luxembourg includes either:

Level 14-26 (includes Identified Staff in Level 14-26 to whom the principle of proportionality among the Identified Staff applies):

- Participation in the Annual Incentive Plan (herein the "AIP");
- PayPal Holdings equity awards (discretionary), including annual awards and, in very limited situations, Key Talent Awards; and
- Other variable pay awards, including cash based Spot Awards, Patent Awards and Employee Referral Bonuses.

-or-

Identified Staff in Level 14-26 to whom the principle of proportionality among Material Risk Takers does not apply and in Level 27 and above:

- Participation in the Luxembourg Variable Pay Plan (which delivers cash awards and PayPal Holdings equity awards);
- PayPal Holdings, Inc. equity awards in the form of Key Talent awards (in very limited situations); and
- Other variable pay awards, including cash-based Spot Awards, Patent Awards and Employee Referral Bonuses.

For performance year 2022, all Identified Staff were in Level 27 or above and were LVP-eligible. No Identified Staff has been applied the principle of proportionality.

Both the AIP Plan and LVP Plan have a minimum pay-out of 0% and has a maximum pay-out of 200% of target bonus percentage. Employees who receive 0% individual performance portion pay-out are not eligible to receive or vest in any portion of the AIP or TVP award.

Annual Incentive Plan ("AIP")

The PayPal Annual Incentive Plan ("AIP") is designed to incent and reward PayPal employees for both PayPal Holdings performance and individual performance.
All employees in Levels 14-26 who do not participate in any other incentive plan are eligible to participate in the AIP. The Target Incentive varies based on the grade level and is expressed as a percentage of base salary.

Payouts under the AIP are dependent on and based on overall performance, a component of which is based on PayPal Holdings ("Corporate") performance, and a component of which is based on individual performance. In Luxembourg, each of the component weight 50%.

The Corporate portion of the bonus is based on PayPal Holding's achievement against Revenue and Non-GAAP operating margin percentage targets that are set by the Committee. The individual portion of the bonus depends on individual achievement against objectives that support PayPal's and PayPal Europe's activities.

Awards under the individual performance component of the AIP are determined at the discretion of the employee's direct manager as well as, for certain roles, the CEO of PayPal Europe with final approval by the RemCo, PayPal, Inc.'s Chief People Officer and PayPal, Inc.'s Chief Executive Officer.

For employees working for foreign subsidiaries of PayPal, their participation in the AIP does not mean they are employed by PayPal Holdings Inc. Any award they may receive is not part of local compensation or an entitlement to employment. Participation in the AIP does not guarantee continued employment with PayPal. Although the AIP is in effect for the 2021 calendar year, PayPal is under no obligation to renew or extend the AIP for future years. Any bonus pay-out made under the AIP, as well as the AIP itself, is discretionary in nature. A payment of a bonus in any plan year does not guarantee a payment of a bonus in any subsequent plan year.

Luxembourg Variable Pay Plan ("LVP")

The Luxembourg Variable Pay Plan is designed to incent and reward the Bank's employees for both PayPal performance and individual performance.

Identified Staff below level 27 to whom the principle of proportionality among Identified Staff does not apply and employees at level 27 and above who are employed by a PayPal Holdings subsidiary are eligible to participate in the LVP Plan, subject to the following exclusions and limitations:

- Employees who participate in any other incentive plan (e.g., the AIP plan) are not eligible to participate in the LVP Plan; and
- An employee must be employed before October 1st of the year to be eligible to receive an award under the LVP Plan for that year and, where permitted, must be employed on the date any portion of an award is paid or, in connection with an equity award, settled.

Under the LVP Plan, each participant has a target Total Variable Pay award ("TVP Award") that is determined based on job level. The Target TVP Award is expressed as a percentage of "eligible earnings."

Any funding and pay-outs under the LVP Plan are subject to the Bank meeting minimum solvency and liquidity standards. Should the Bank not meet the established minimum requirements applicable to a performance period, no TVP Award will be made for that performance period. In addition, the Committee has discretion to reduce or eliminate any TVP Award.

TVP Awards are determined based on an Individual Component (50%) and a Corporate Component (50%). Both Individual and Corporate Components are delivered in the form of cash and equity, the mix of which varies by level.

The individual portion of the TVP Award is based on individual achievement against objectives that support the Bank's activities. The Corporate portion of the TVP Award bonus is based PayPal Holding's achievement against Revenue and Non-GAAP operating margin percentage targets that are set by the Committee, and is contingent on PayPal Holdings meeting minimum threshold financial goals, as approved by the PayPal Compensation Committee. The minimum threshold level must be achieved in order for the Corporate Component to be funded.

TVP Awards components

TVP Awards are made of upfront and deferred components, the proportion of which will vary by job level. Both the upfront and deferred portions are delivered under the form of cash and equity:

- 45% to 70% of the TVP Award is deferred over at least 4 years in the form of cash and equity;
- 55% to 60% of the up-front portion of TVP Awards is delivered in the form of Restricted Stock Units ("RSUs") under and subject to the terms of the PayPal Holdings, Inc. 2015 Equity Incentive Plan (the "Equity Plan"). Upfront equity grants vest immediately upon grant; however, they are subject to a retention period of one year, during which the shares received from vested grants (net of applicable taxes - that is, after a "sell to cover" settlement of the taxes due upon vesting) may not be sold or transferred; and
- 40% to 45% of the upfront portion of TVP Awards is delivered in cash.

- 55% to 60% of the deferred portion of TVP Awards is delivered in the form of RSUs under and subject to the terms of the Equity Plan. RSUs vest over a 4-year period following the grant. Any unvested equity awards remaining at the time of a Participant's termination of employment will be forfeited. Deferred equity awards delivered as part of a TVP Award are subject to a one-year retention period, during which the shares received (net of applicable taxes) may not be sold or transferred; and
- 40% to 45% of the deferred portion of TVP Awards is delivered in cash.

A one-year retention period applies to RSUs following the vesting period, during which the instruments cannot be sold or transferred.

Ex-post risk adjustment measures

To the extent permitted by applicable Luxembourg labor and contract laws, in case of evidence of misconduct (e.g., breach of code of conduct or internal rules, especially concerning risk-taking), serious negligence, fraudulent or misleading information, and similar misconduct, the Bank may apply an ex-post risk adjustment of up to 100% of any variable pay award to a member of Identified Staff, either as a claw back (i.e. recovery of an amount already paid) or malus (i.e. reduction or elimination of awards that would otherwise have been paid in the future). Under no circumstances will an ex-post risk adjustment lead to an increase of any initially-awarded variable remuneration. During the 2022/2023 annual cycle review no ex-post risk adjustment decision has been made.

Transition payments

Significant disruption to the means and timing of variable pay awards for employees who transition to the LVP in Levels 27 and 28 are expected (i.e., transition from AIP to LVP in Level 27 or 28 or promotion from Level 27 to 28). To mitigate such adverse consequences, PayPal Europe will issue one additional form of variable pay to be delivered over four years in the form of cash, with the first payment occurring in the year following the event (i.e., promotion or transfer) and at the same time as the TVP Award.

PayPal equity awards

PayPal Holdings, Inc. grants equity awards to eligible employees pursuant to the terms and conditions of the PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan (the "2015 Plan"). The 2015 Plan is approved by the Board of Directors of PayPal Holdings and PayPal Holdings' stockholders. The 2015 Plan is a U.S.-based program and is subject to U.S. law. Any PayPal Holdings equity award granted to a Luxembourg-based employee is made by PayPal Holdings on a discretionary and occasional basis.

Equity grants may be made upon hire (New Hire equity grants are to be considered as sign-on bonus) and as a part of an employee's annual Total Variable Pay Award.

Equity grants are designed to reward employees for potential long-term contributions and promote the success and enhance the value of PayPal Holdings by linking the personal interests of employees to those of PayPal Holdings' stockholders. PayPal Holdings equity grants are subject to vesting provisions, whereby Restricted Stock Units ("RSUs") generally become fully vested after three years, subject to continued employment with a PayPal company on each vesting date. Any such awards granted to the Identified Staff are subject to the specific rules for Identified Staff, such as fixed-to-variable compensation ratio, deferral over four years (with pro-rata vesting), 1-year holding period, malus and claw-back provisions.

The new hire and annual equity grant guidelines are subject to review each year, and grant recommendations are expected to be within the equity grant guidelines.

Key Talent Awards

From time to time, in addition to annual equity grants, an additional equity grant (a "Key Talent Award") may be provided on a discretionary basis to high-performing, high-potential employees or Top talents. If an employee is considered for a Key Talent Award, the compensation level for that employee is reviewed with a particular emphasis on the value of unvested equity. Participants in the LVP Plan are eligible to receive Key Talent Awards. Any such awards granted to the Identified Staff are subject to the specific rules for Identified Staff, such as fixed-to-variable compensation ratio, deferral over four years (with pro-rata vesting), 1-year holding period, malus and claw-back provisions.

Golden parachute agreements

Golden parachute agreements are not standard practice at PayPal Europe, and there are no such agreements currently in place that could otherwise compromise decision-making in terms of moral hazard.

New hire awards

Occasionally, on a case-by-case basis, a one-time cash bonus and/or equity award may be provided to new hires in key roles ("new hire awards"). New hire awards value and form are determined before the employee's hire date and the related cash and/or equity award (subject to a vesting schedule) shall be made within the first year of employment. For the avoidance of doubt, with exception of those awards made within the first year of employment in the context of hiring, guaranteed variable remuneration is prohibited. Generally, new hire awards are used to close a gap between the current compensation a candidate is receiving at his or her current employer when compared to the compensation he or she will receive pursuant to PayPal Europe's remuneration framework or to defray or replace value the candidate would forego from his or her current employer by joining PayPal Europe (e.g., to offset a bonus whose payment date has not yet been reached).

Other awards

- Spot Awards: All regular PayPal employees (except Section 16 officers as per the Securities Exchange Act of 1934) are eligible for this cash bonus program, which recognises both individuals and teams for extraordinary contributions, exemplary performance, innovation, and effort above and beyond regular goals and objectives;
- Patent Awards are granted to employees whose ideas result in an application for a patent; and
- Employee Referral Bonuses reward employees for referring talented staff to join PayPal and, depending on the job level of a referred employee who is hired, can range from EUR 300 - 1,300.

4.3.4 Quantitative disclosure

Actual remuneration figures for the year 2022 for the Material Risk Takers (so-called Identified Staff) are given in the table below. "Senior Management" is defined as Members of the authorized management and some other employees with responsibility for conducting the Bank's day-to-day activities in their field of activity.

Column (A) refers to amounts in thousands of USD based on foreign exchange rates per *http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm*. Column (B) is for the number of beneficiaries.

in thousands of USD	*Non-Executive Directors (*)* (A)	(B)	*Senior Management (**)* (A)	(B)	*Other Identified Staff (***)* (A)	(B)	*Total* (A)	(B)
Director fees	653	3	-	-	-	-	653	3
Base Salary	-	-	1,750	7	3,782	20	5,532	27
Standard Allowances	-	-	19	7	70	20	88	27
Special Allowances	-	-	747	6	392	9	1,139	15
Benefits	-	-	266	7	512	20	778	27
Total Fixed Pay 2022	***653***	***3***	***2,782***	***7***	***4,755***	***20***	***8,190***	***30***
2022-2023 Annual review cycle TVP Awards	**-**	**-**	**1,775**	**7**	**3,002**	**18**	**4,777**	**25**
- Upfront component (Cash and Equity)	***-***	***-***	***616***	***7***	***1,267***	***18***	***1,883***	***25***
Of which Cash	*-*		*271*		*569*		*840*	
Of which Equity	*-*		*346*		*697*		*1,043*	
- Deferred component (Cash and Equity)	***-***	***-***	***1,158***	***7***	***1,735***	***18***	***2,894***	***25***
Of which Cash	*-*		*505*		*781*		*1,286*	
Of which Equity	*-*		*654*		*954*		*1,608*	
Other 2022 cash variable pay (e.g. Spot awards, Transition payments, referral bonuses)	**-**	**-**	**-**	**-**	**47**	**9**	**47**	**9**
Of which Cash	*-*		*-*		*47*		*47*	
Of which Equity	*-*		*-*		*-*		*-*	
2022 Equity Compensation Awards (Deferred)	**-**	**-**	**455**	**3**	**780**	**7**	**1,235**	**10**
Sub-Total Variable pay	***-***	***-***	***2,230***	***7***	***3,829***	***18***	***6,059***	***25***
Sign-on (incl. New Hire Equity and Buy-Out)	-	-	471	1	-	-	471	1
Of which Cash	*-*		*148*		*-*		*148*	
Of which Equity	*-*		*323*		*-*		*323*	
Severance payments made in 2022	-	-	-	-	-	-	-	-
Total Sign-on / Severance	***-***	***-***	***471***	***1***	***-***	***-***	***471***	***1***
Total Variable Pay 2022	***-***	***-***	***2,701***	***8***	***3,829***	***18***	***6,529***	***26***
Unvested Deferred Compensation as of 31 Dec. 2022 (****) (excludes variable compensation 2022)			**1,667**		**2,403**		**4,071**	
Due to vest in 2023			*729*		*1,103*		*1,832*	
Due to vest after 2023			*939*		*1,299*		*2,238*	

(*) Out of the 5 Supervisory Board ("SB") members, only the 3 external non-executive members are compensated by the Bank for being SB member

(**) In case an employee's Identified Staff classification (Senior Management vs. Other Identified Staff) has changed in the course of the year, the employee's data is reported under the Category in which the employee has been identified for the majority of the year 2022

(***) One Identified Staff who was not employed by PPEU is included in the table. For confidientility reasons, the data of this Identified Staff cannot be shown separately

(****) The value of unvested equity at 31 December 2022 is based on the PayPal inc. share price of USD 71.22 (fair market value as at 31 December 2022)

For the year 2022, Paypal Europe did not apply the principle of proportionality amongst institutions nor individuals, laid down in Article 94(3) of Directive 2013/36/EU.

As at 31 December 2022 total actual remuneration for the Identified Staff was composed by 55% of fixed and 45% of variable remuneration.

None of the Identified Staff who left PayPal Europe in 2022 received a severance payment.

For the performance year 2022, four individuals had a total remuneration above EUR 1 million and below EUR 1.5 million. Out of those four individuals, 3 of them were Identified Staff for the performance year 2022.