PayPal 2 S.à r.l.

Pillar III Disclosure
31 December 2023

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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 2023, 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 Managers

- Sean Byrne - Manager
- Steeves Oster - Manager
- Fabrice Borsello - Manager

PPEU Supervisory Board

Internal non-executive members

- Wei-Lin Lee - Vice President, Remittances - resigned on 11 August 2023
- Cherie Wong – Vice President - appointed on 16 November 2023
- 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 - Chief Executive Officer, Authorised Manager
- Steeves Oster - Chief Financial Officer, Authorised Manager
- Fabrice Borsello - Chief Risk Officer, Authorised Manager

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 follows all applicable requirements and guidelines on sound capital and liquidity management as defined byEuropean Banking Authority’s (“EBA”) and the Commission de Surveillance du Secteur Financier (“CSSF”).

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 with the Bank's 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 Declaration

In accordance with Article 435 1 (e) of the CRR, the Supervisory Board confirms that risk management systems in place are adequate with regard to the Bank’s risk profile and strategy. The identification of the risks and the setup of a resilient and integrated control, monitoring and reporting environment is of the utmost importance for the Bank’s Management. We believe that this report is a comprehensive description of the risk environment

2 Capital requirements

2.1 Supervision

PPEU as a credit institution, 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 2023, 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.

As per the CRR requirements, the Bank's regulatory own funds consist of:

- Common Equity Tier 1 ("CET1") capital: Total shareholders' equity(incl. share capital, share premium,reserves and retained earinings), 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 2023 had an impact of USD 3 million on CET1 as of 31 December 2023. There were no restrictions applied to the Bank's calculation of own funds as of 31 December 2023.

EU OV1 - Overview of total risk exposure amounts

in thousands of USD	*Total risk exposure amounts (TREA)* 31 December 2023	*Total own funds requirements* 31 December 2023
Credit risk (excluding CCR)	3,244,417	259,553
Of which the standardised approach	*3,244,417*	259,553
Counterparty credit risk - CCR	138,930	11,114
Of which credit valuation adjustment - CVA	*47,956*	3,836
Of which other CCR	*90,974*	7,278
Position, foreign exchange and commodities risks (Market risk)	88,383	7,071
Of which the standardised approach	*88,383*	7,071
Operational risk	980,578	78,446
Of which basic indicator approach	*980,578*	78,446
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	20,536	1,643
Total	***4,452,308***	***356,185***

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 2023, the Bank had no equity positions and USD 2,143 million 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 92% 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 2023, 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)	3,045

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 2023, Market Risk exposure amounts to:

EU MR1 - Market risk under the standardised approach

in thousands of USD	*RWEAs*
Foreign exchange risk	88,383
Total	***88,383***

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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 2023.

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 2023:

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)	368,260	580,000	620,666	78,446	980,578

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 2023.

EU KM1 - Key metrics template

in thousands of USD	*31 December 2023*	*30 September 2023*	*30 June 2023*	*31 March 2023*
Available own funds (amounts)				
Common Equity Tier 1 (CET1) capital	1,346,868	1,330,979	1,321,011	1,239,304
Tier 1 capital	1,346,868	1,330,979	1,321,011	1,239,304
Total capital	1,346,868	1,330,979	1,321,011	1,239,304
Total risk exposure amount				
Total risk exposure amount	4,452,307	5,663,513	5,695,341	5,303,346
Capital ratios (as a percentage of risk-weighted exposure amount)				
Common Equity Tier 1 ratio (%)	30.25%	23.50%	23.19%	23.37%
Tier 1 ratio (%)	30.25%	23.50%	23.19%	23.37%
Total capital ratio (%)	30.25%	23.50%	23.19%	23.37%
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%*	*1.13%*	*1.13%*	*1.13%*
of which: to be made up of Tier 1 capital (percentage points)	*1.50%*	*1.50%*	*1.50%*	*1.50%*
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 (%)	1.46%	1.25%	0.80%	0.75%
Combined buffer requirement (%)	3.96%	3.75%	3.30%	3.25%
Overall capital requirements (%)	13.96%	13.75%	13.30%	13.25%
CET1 available after meeting the total SREP own funds requirements (%)	22.20%	14.25%	15.19%	14.61%

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	5,378,490	-	5,378,490	-	20,536	0.38%
Regional government or local authorities	116,558	-	116,558	-	23,312	20.00%
Multilateral development banks	-	-	-	-	-	0.00%
International organisations	-	-	-	-	-	0.00%
Institutions	1,082,669	-	1,082,669	-	222,443	20.55%
Corporates	728,736	175,693	728,736	10,111	458,099	62.86%
Retail	2,794,620	5,937,363	2,794,620	-	2,095,965	75.00%
Exposures in default	41,508	1,158	41,508	-	62,262	150.00%
Institutions and corporates with a short-term credit assessment	294,490	-	294,490	-	130,887	44.45%
Other items	441,867	-	441,867	-	230,914	52.26%
TOTAL	**10,878,938**	**6,114,214**	**10,878,938**	**10,111**	**3,244,417**	**29.82%**

Capital requirement is calculated as 13.96% 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 1.46% countercyclical capital buffer (refer to 2.2.4.3 *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)	22,689	198,105	1.4	309,111	309,111	309,111	90,974
Total				**309,111**	**309,111**	**309,111**	**90,974**

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

in thousands of USD	Exposure value	RWEA
Transactions subject to the Standardised method	309,111	47,956
Total transactions subject to own funds requirements for CVA risk	**309,111**	**47,956**

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

in thousands of USD	Risk weight		
Exposure classes	20%	50%	Total exposure value
Institutions	211,938	-	211,938
Corporates	-	97,173	97,173
Total exposure value	**211,938**	**97,173**	**309,111**

During the year 2023, the Bank entered into foreign exchange derivatives in AUD, CAD, CHF, CZK, DKK, EUR, GBP, HKD, HUF, ILS, JPY, MXN, NOK, NZD, PHP, PLN, SEK, SGD, THB, TWD and ZAR. Open positions as at 31 December 2023 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	52,530	USD	35,783	1/25/2024
Long	CAD	Level 2	32,340	USD	24,421	1/25/2024
Long	CHF	Level 2	26,600	USD	31,614	1/25/2024
Long	CZK	Level 2	446,786	USD	19,980	1/25/2024
Long	DKK	Level 2	254,471	USD	37,680	1/25/2024
Long	EUR	Level 2	1,652,309	USD	1,823,984	1/25/2024
Long	GBP	Level 2	39,920	USD	50,822	1/25/2024
Long	HKD	Level 2	60,188	USD	7,705	1/25/2024
Long	HUF	Level 2	7,741,485	USD	22,295	1/25/2024
Long	ILS	Level 2	10,660	USD	2,945	1/25/2024
Long	JPY	Level 2	1,347,824	USD	9,556	1/25/2024
Long	MXN	Level 2	590,800	USD	34,810	1/25/2024
Long	NOK	Level 2	300,919	USD	29,583	1/25/2024
Long	NZD	Level 2	25,296	USD	15,985	1/25/2024
Long	PHP	Level 2	45,200	USD	816	1/25/2024
Long	PLN	Level 2	246,748	USD	62,691	1/25/2024
Long	SEK	Level 2	615,209	USD	61,072	1/25/2024
Long	SGD	Level 2	3,744	USD	2,836	1/25/2024
Long	THB	Level 2	36,450	USD	1,064	1/25/2024
Long	TWD	Level 2	20,410	USD	667	1/25/2024
Short	EUR	Level 2	(180,580)	USD	(199,342)	1/25/2024
Short	GBP	Level 2	(2,048,098)	USD	(2,607,434)	1/25/2024
Short	HUF	Level 2	(2,232,370)	USD	(6,429)	1/25/2024
Short	NOK	Level 2	(15,000)	USD	(1,475)	1/25/2024
Short	ZAR	Level 2	(30,000)	USD	(1,634)	1/25/2024

As of 31 December 2023, USD 5,939 million (2022: USD 4,666 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 2023 and 2022 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	5,370,276	-	-	-	-	-	8,214	5,378,490
Regional government or local authorities	-	116,558	-	-	-	-	-	116,558
Multilateral development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Institutions	-	1,062,970	19,699	-	-	-	-	1,082,669
Corporates	-	177,864	276,916	-	284,067	-	-	738,848
Retail exposures	-	-	-	2,794,620	-	-	-	2,794,620
Exposures in default	-	-	-	-	-	41,508	-	41,508
Exposures to institutions and corporates with a short-term credit assessment	-	54,526	239,964	-	-	-	-	294,490
Other items	-	263,690	-	-	178,176	-	-	441,867
Total	***5,370,276***	***1,675,608***	***536,579***	***2,794,620***	***462,243***	***41,508***	***8,214***	***10,889,049***

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, Fitch and Standard and Poor's.

2.2.4.3 Countercyclical capital buffer

The countercyclical buffer increased in 2023, most of the countries having applied a countercyclical capital buffer weight as nil during COVID-19 period. During 2023, United Kingdom ("UK") countercyclical capital buffer weight was amended from 1.0% to 2%. Other notable increase were Sweden ("SE") 2% (2022: 0%), Norway ("NO") 2,5% (2022: 2%) and Germany ("DE") 0.75% (2022:0%).

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*
Breakdown by country	*Exposure value under the standardised approach*		*Relevant credit risk exposures - Credit risk*	*Total*		*weights (%)*	*buffer rate (%)*
CA	19,988	19,988	800	800	9,994	0.33%	0.00%
CH	10,012	10,012	166	166	2,069	0.07%	0.00%
DE	863,180	863,180	48,113	48,113	601,415	19.78%	0.75%
ES	25,819	25,819	1,570	1,570	19,629	0.65%	0.00%
FR	214,815	214,815	8,151	8,151	101,884	3.35%	0.50%
GB	2,531,963	2,531,963	149,553	149,553	1,869,411	61.49%	2.00%
IE	4,876	4,876	390	390	4,876	0.16%	1.00%
IT	41,454	41,454	2,513	2,513	31,413	1.03%	0.00%
JP	70,233	70,233	2,809	2,809	35,117	1.16%	0.00%
LU	188,288	188,288	15,063	15,063	188,288	6.19%	0.50%
NL	69,892	69,892	3,079	3,079	38,484	1.27%	1.00%
NO	14,860	14,860	594	594	7,430	0.24%	2.50%
SE	54,556	54,556	1,468	1,468	18,355	0.60%	2.00%
US	325,313	325,313	8,938	8,938	111,724	3.68%	0.00%
Total	***4,435,249***	***4,435,249***	***243,207***	***243,207***	***3,040,088***	***100%***	

As at 31 December 2023 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	4,467,471
Institution specific countercyclical capital buffer rate	1.46%
Institution specific countercyclical capital buffer requirement	65,153

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 2023*	*30 September 2023*	*30 June 2023*	*31 March 2023*
Leverage ratio				
Total exposure measure	11,792,012	12,961,128	12,749,483	12,618,316
Leverage ratio (%)	11.46%	10.27%	10.36%	9.82%
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 2023, the leverage ratio increased at 11.46% 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 2023*
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs, but including collateral)	10,878,938
Total on-balance sheet exposures (excluding derivatives and SFTs)	***10,878,938***
Derivative exposures	
Exposure determined under Original Exposure Method	309,111
Total derivatives exposures	***309,111***
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	5,989,078
(Adjustments for conversion to credit equivalent amounts)	(5,385,115)
Off-balance sheet exposures	***603,963***
Capital and total exposure measure	
Tier 1 capital	1,351,046
Total exposure measure	***11,792,012***
Leverage ratio	
Leverage ratio (%)	11.46%
Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	11.46%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	11.46%
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)	11,792,012
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)	11,792,012
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)	11.46%
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)	11.46%

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 2023, Pillar II capital requirements amounted to USD 632 million.

3 Risk Management

3.1 Introduction

The Supervisory Board has overall supervisory responsibility for PayPal Europe. It provides strategic leadership within the context of the Group's strategy and supervises PayPal Europe's management. The Authorized Management acts as the primary governing body, ensuring execution of business strategy and daily management activities.

Authorized Management is the primary function responsible for executive management and governance. It provides execution of the business strategy and daily management activities; manages the primary operating relationship between PayPal Europe and key service providing entities; evaluates, escalates, and manages material risks; and executes strategies and policies authorized by the Supervisory Board. Authorized Management is composed of the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO).

In order to assist the Supervisory Board in its duties, two Board-level committees were established.

Remuneration and Nomination Committee (RNC) assists in ensuring that all necessary measures are in place to manage overall employee compensation sensibly, to retain key leaders and ensure the remuneration approach actively enables the commercial goals of the business within the risk appetite.

Audit, Risk and Compliance Committee (ARCC) assists and guides the Supervisory Board in fulfilling its oversight responsibilities with respect to financial information, internal control systems, quality of work carried out by key internal control functions, compliance with applicable internal policies and external laws/regulations.

Additionally at an Authorized Management level there are committees to assist them in discharging their duties.

The Operations Compliance Risk Committee (OCRC) was established to assist Authorized Management in its oversight responsibilities, and to serve as a channel for communication and escalation for operational and risk related information to Authorised Managment. Key tasks of the Committee include assessing the adequacy and consistency between the risk environment and the control environment, assessing effectiveness of controls in place, evaluating capital and liquidity positions, and advising the Supervisory Board on the overall risk strategy of PayPal Europe. The OCRC has independent, dotted-line reporting line into the ARCC. The OCRC requires a quorum of two members of Authorized Management who are regarded as voting members. Non-voting members include Head of Legal, Chief Internal Audit Officer, Chief IT and Information Security Officer, Head of Treasury, members of the EMEA Risk & Compliance function. Committee members can invite employees or non-employees to the OCRC to cover relevant topics without having voting rights.

The Credit Risk Committee (CRC) was established to assist the OCRC in its activity in what relates to credit activity of PayPal Europe and reports into the OCRC. Any approvals, based on delegated authority, or key issues discussed within the CRC are escalated to the OCRC in order to provide Authorized Management with a holistic view of credit risks and its ability to manage those risks.
The CRC is responsible for the development and effectiveness of PayPal Europe's credit risk management and credit risk appetite framework, which entails managing credit risk, strategic risk and operational risk with respect to credit and eMoney products: The CRC is composed of the following members, each having voting rights, Chief Executive Officer (Chairman), Chief Financial Officer and Chief Risk Officer. Non-voting members of the committee include the Head of Legal, Head of Treasury, Chief Internal Audit Officer and Credit Controller - Finance.

As organized, PPEU's committee governance helps the Bank execute on its business plan and it provides comfort that both the Supervisory Board and the Authorized Management are enabled to take informed decisions on risk within the framework of their respective prerogatives. PPEU's committee governance also acts as a robust channel to communicate and enforce a culture of sound risk taking within the Bank.
The Bank also 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, part of the Risk and Compliance organization, is the Bank's internal risk control function (second line of defence) reporting to the CRO is 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 CRO is in charge of the implementation of the Risk and Compliance function as required by the Circular CSSF 12/552 as amended, monitors the proper enforcement of a culture of compliance and a culture of sound risk-taking within PayPal Europe, 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") and Anti-Money Laundering / Counter Terrorist Financing related obligations which are delegated to the Head of Financial Crime Compliance ("FCC") and Money Laundering Reporting Officer ("MLRO"). The Bank's CCO and the Head of FCC / 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.

Establishment and Monitoring of Risk Limits

Risk appetite framework of PayPal Europe serves as the primary tool for establishing risk limits for all key areas of activity of the entity, and for ensuring their alignment with business strategy as objectives. Risk appetite framework also establishes escalation procedures in case of a breach in order to ensure effective flow of the information within the organiastion, timely notification of senior management of any identified issues and remediation of the escalated issues in a prompt manner.

Escalation channels for risk appetite breaches include, in the order of severity of the breach, (1) escalation to the CRO of PayPal Europe, (2) escalation to PayPal Europe ARCC and PayPal Global Entity Management, and (3) escalation to PayPal Global Risk Leadership.

Risk appetite framework covers all material risks relevant to activity of PayPal Europe, including the ones related to its prudential adequacy, operational as well as strategic aspects of its operations. Examples of limits set for prudential ratios of PayPal Europe are disclosed in the table below.

Risk Appetite Indicator	PPEU CRO Trigger	PPEU ARCC	Global Risk Leadership
Total Capital Ratio	18%	17%	16%
Liquidity Coverage Ratio	135%	122%	113%
Net Stable Funding Ratio	130%	128%	120%
Large Exposure	20%	20%	23%
Leverage Ratio	5%	4.5%	4%

In addition to risk appetite metrics, operational KRIs and KPIs are set up by the various departments as part of their activity. Escalation of any breaches related to these indicators are performed in line with the operational procedures of these departments.

3.2 Credit and counterparty risks

Credit risk is the risk that the customers may fail to fully meet their financial commitments. The risk arises from lending operations and/or the ability to manage collections. The risks related to credit lending and collections are managed by the Credit Risk & Governance function.

Counterparty Credit Risk is the risk that a counterparty will not live up to its contractual obligations. It covers the risk of default of issuers of the bonds held in PayPal's portfolio or of its deposit and derivative counterparties.

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

Authorised Management are responsible for management of credit risk. The Bank's Treasury Banking and Investment policy as well as the Credit Risk policies 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 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.

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 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 2023, the collective impairment and valuation allowance (related to principal and interests) amounts to USD 316,376,182 (2022: USD 288,432,382).

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 and Global Pay Later “GPL” 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	***3,950,707***	***3,950,707***	-	-	-	-	-	-	-	-	-	-
Loans and advances	***3,221,963***	***1,981,064***	***398,524***	***105,110***	***2,741***	***76,690***	***(180,421)***	***(51,986)***	***(128,435)***	***(63,602)***	***(1,853)***	***(58,800)***
Non-financial corporations	246,909	-	-	25,159	-	-	-	-	-	(2,949)	-	-
Households	2,975,054	1,981,064	398,524	79,951	2,741	76,690	(180,421)	(51,986)	(128,435)	(60,654)	(1,853)	(58,800)
Debt securities	***2,142,987***	***2,142,987***	-	-	-	-	***(97)***	***(97)***	-	-	-	-
General governments	1,426,593	1,426,593	-	-	-	-	(35)	(35)	-	-	-	-
Credit institutions	219,274	219,274	-	-	-	-	(12)	(12)	-	-	-	-
Other financial corporations	175,498	175,498	-	-	-	-	(22)	(22)	-	-	-	-
Non-financial corporations	321,623	321,623	-	-	-	-	(27)	(27)	-	-	-	-
Off-balance-sheet exposures	***5,987,920***	***5,937,303***	***50,617***	***1,158***	***130***	***1,019***	-	-	-	-	-	-
Non-financial corporations	50,556	50,556	-	-	-	-	-	-	-	-	-	-
Households	5,937,363	5,886,746	50,617	1,158	130	1,019	-	-	-	-	-	-
Total	***15,303,577***	***14,012,061***	***449,141***	***106,268***	***2,871***	***77,709***	***(180,518)***	***(52,082)***	***(128,435)***	***(63,602)***	***(1,853)***	***(58,800)***

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	***3,950,707***	***3,950,707***	-	-	-	-	-	-
Loans and advances	***3,221,963***	***3,176,007***	***45,956***	***105,110***	***18,127***	***64,005***	***22,979***	***105,110***
Non-financial corporations	246,909	241,163	5,746	13,018	1,200	6,477	5,342	13,018
Households	2,975,054	2,934,844	40,210	92,092	16,927	57,528	17,637	92,092
Debt securities	***2,142,987***	***2,142,987***	-	-	-	-	-	-
General governments	1,426,593	1,426,593	-	-	-	-	-	-
Credit institutions	219,274	219,274	-	-	-	-	-	-
Other financial corporations	175,498	175,498	-	-	-	-	-	-
Non-financial corporations	321,623	321,623	-	-	-	-	-	-
Off-balance-sheet exposures	***5,987,920***			***1,158***				***1,158***
Non-financial corporations	50,556			-				-
Households	5,937,363			1,158				1,158
Total	***15,303,577***	***9,269,701***	***45,956***	***106,268***	***18,127***	***64,005***	***22,979***	***106,268***

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	515,833	-	2,342,191	3,083,037
Debt securities	1,973,686	169,204	-	2,142,890
Total	***2,489,519***	***169,204***	***2,342,191***	***5,225,927***

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) 2021/451:

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*	*Of which defaulted*	*Of which impaired*	*On performing forborne exposures*	*On non-performing forborne exposures*
Loans and advances	*7,016*	*24,716*	*24,716*	*22,875*	*(2,443)*	*(21,158)*
Non-financial corporations	147	1,414	1,414	-	-	(301)
Households	6,869	23,302	23,302	22,875	(2,443)	(20,857)
Total	*7,016*	*24,716*	*24,716*	*22,875*	*(2,443)*	*(21,158)*

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	7,282,703
Debt securities	2,142,987
Total	***9,425,690***
Of which non-performing exposures	*105,110*
Of which defaulted	*105,110*

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 2023 and 2022.

in thousands of USD	*2023*		
	Gross exposure	*Offsetting impact*	*Net exposure*
Assets	406,834	281,686	125,148
Liabilities	315,991	281,686	34,305

3.2.3.2 Guarantee agreement

The Bank has entered into guarantee agreements (the “Guarantees”) with PayPal International Treasury Centre (LU) (“ITC”). The Guarantees are eligible as a credit risk mitigation technique for capital adequacy purpose and are not eligible for balance sheet netting under IFRS. As at 31 December 2023, the Guarantees cover:

- up to USD 400 million of net PPPL balances receivables in case of PPPL insolvency; and
- up to USD 713 million of Danube Investor’s balances receivables in case of its insolvency.

The Guarantees are 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.

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, constitute a single risk 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

For merchants, the Bank offers a business loan to small and medium size businesses In Germany that was launched in 2018. In France and the Netherlands, the Banks offers a business loan to small and medium size businesses on a similar basis that were launched in April 2022.

For consumers, the Bank offers a 12-months instalment credit product to consumers in Germany, launched in 2019; in addition to the 12-months instalment credit product, 3-, 6- and 24-months instalment credit products have been offered since 2021. Furthermore, there is a 1-month instalment credit product with additional features that was launched for consumers in Germany in December 2021. A similar consumer instalment credit offering was launched in 2020 in France that is paid back in 4 equal instalments. On a similar basis to the 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 June 2023, the Bank entered into a multi-year agreement with an investor to sell eligible consumer instalment receivables in the context of an asset externalization strategy. In October 2023, the Bank began selling existing receivables (back book sale) covered by the agreement, while the forward flow sale of the newly originated instalments products has commenced in November 2023. Going forward, the instalment loan receivables are held at the Bank until sold to the investor on a weekly basis.

In the UK, a cash advance product to small and medium size businesses is offered on a similar basis as the ones described above for merchants. On the same market, a consumer instalment credit offering was launched in 2020 that is paid back in 3 equal instalments on a similar basis as the ones described above for consumers. Furthermore, a consumer credit product to retail consumers with a revolving credit line is offered in the UK.
Following the departure of the United Kingdom from the European Union (“EU”) and the EEA on January 31, 2020 (commonly referred to as “Brexit”), effective November 1, 2023, PayPal’s wholly owned U.K. subsidiary (PayPal UK) received authorizations from the FCA as an electronic money institution with credit permissions, and a registration as a crypto asset business, The go live of PayPal UK, resulted in UK customer eMoney liabilities and related cash balances been transferred from the Bank to PayPal UK.
While UK credit products were originated by the Bank in the past, the Bank purchases the entirety of UK credit originations from PayPal UK. These exposures are originated by PayPal UK subject to mutually agreed origination policies and the credit quality of the exposures is subject to a mutually agreed risk appetite. Subsequent to the purchase of the exposures, the UK cash advance product and the consumer credit product are retained on PayPal Europe balance sheet, and in line with asset externalization strategy, the UK instalment product is sold to an external investor.

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

PayPal Europe business model leads to a limited exposure to interest rate fluctuation, primarily through low maturities of its exposures. According to the Investment Policy, the Bank is required to limit weighted duration of the customer portfolio to 1 year and the weighted duration of the corporate operating cash portfolio to under 180 days. Exceptions to the Investment Policy must be reported and approved by the Management Board and Head of Treasury.

In accordance with EBA Guidelines EBA/GL/2022/14 and CSSF Circular 24/848, PayPal Europe submits its non-trading book activities to stress tests on interest rate risk on a quarterly baisis, with reporting to OCRC and the ARCC. The supervisory shock scenarios are defined in line with the EBA Guidelines. The impacts are evaluated with respect to changes in Economic Value of Equity and Net Interest Income.

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. Based on the results of all calculations, no vulnerabilities with respect to interest rate exposures were identifies for PayPal Europe.

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*	*2023*		*2022*	
		Increase	*Decrease*	*Increase*	*Decrease*
EUR	10%	1,599	(1,599)	(1,377)	1,377
GBP	10%	4,182	(4,182)	3,219	(3,219)

The tables below show all assets and liabilities at carrying value, classified by currency respectively as at 31 December 2023 and 2022.

in thousands of USD	*2023*				
	USD	*EUR*	*GBP*	*Others*	*Total*
Assets					
Cash and balances with central banks	-	2,787,036	-	-	2,787,036
Financial assets held for trading - Derivatives	-	17,245	55	5,603	22,903
Loans and advances to banks	73,761	783,740	247,681	58,489	1,163,671
Loans and advances to customers	-	829,679	2,253,358	-	3,083,037
Investment securities	1,523,153	238,872	380,865	-	2,142,890
Property, plant and equipment and right-of-use assets	4,330	-	-	-	4,330
Deferred tax assets	-	8,214	-	-	8,214
Other financial assets	1,026	1,549,620	129,494	59,162	1,739,302
Other assets	5,766	46,689	16,456	254	69,165
Total assets	***1,608,036***	***6,261,095***	***3,027,909***	***123,508***	***11,020,548***
Liabilities					
Financial liabilities held for trading - Derivatives	-	1,890	12,687	64	14,641
eMoney liabilities	696,773	5,892,223	160,872	435,514	7,185,382
Current income tax liabilities	-	41,383	-	-	41,383
Deferred tax liabilities	-	1,011	-	-	1,011
Other financial liabilities	4,498	1,869,106	243,471	87,669	2,204,744
Other liabilities	32,157	60,844	12,445	386	105,832
Total liabilities	***733,428***	***7,866,457***	***429,475***	***523,633***	***9,552,993***
Net forward exchange contract positions	***540,003***	***1,624,642***	***(2,556,611)***	***391,967***	***-***
Net balance sheet positions	***1,414,611***	***19,280***	***41,823***	***(8,158)***	***1,467,555***

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 also granted the Bank an authorization to use a predefined portion 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	*Up to 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*Above 12 months*	*Total*
			2023			
Financial liabilities held for trading - derivatives	14,641	-	-	-	-	14,641
eMoney liabilities	7,185,382	-	-	-	-	7,185,382
Other	2,241,562	110,397	-	-	-	2,351,959
Total financial liabilities	***9,441,585***	***110,397***	***-***	***-***	***-***	***9,551,982***
Cash and balances with central banks	2,699,612	-	-	-	87,424	2,787,036
Financial assets held for trading - Derivatives	22,903	-	-	-	-	22,903
Loans and advances to banks	1,163,671	-	-	-	-	1,163,671
Loans and advances to customers	-	416,928	81,652	16,475	2,567,982	3,083,037
Investment securities	486,299	855,269	410,166	221,952	169,204	2,142,890
Other	1,757,232	51,235	-	-	-	1,808,467
Total financial assets	***6,129,717***	***1,323,432***	***491,818***	***238,427***	***2,824,610***	***11,008,004***

3.4.5 Encumbered and unencumbered assets

As at 31 December 2023 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	***87,424***	***10,933,124***	***4,454,427***		
Debt securities	-	2,142,890	1,754,815	2,142,890	1,754,815
of which: issued by general governments	-	1,426,557	1,426,557	1,426,557	1,426,557
of which: issued by financial corporations	-	394,737	29,055	394,737	29,055
of which: issued by non-financial corporations	-	321,596	299,203	321,596	299,203
Other assets	87,424	8,790,234	2,699,612		

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	*87,424,163*	

3.4.6 Liquidity Coverage Ratio

During the course of 2023, the Bank complied with the CSSF liquidity requirement, which requires a minimum Liquidity Coverage Ratio ("LCR") of 100%. Over 2023, LCR was:

EU KM1 - Key metrics template

in thousands of USD	*31 December 2023*	*30 September 2023*	*30 June 2023*	*31 March 2023*
Liquidity Coverage Ratio				
Total high-quality liquid assets (HQLA) (Weighted value -average)	4,300,363	4,449,840	4,324,812	4,521,877
Cash outflows - Total weighted value	4,586,148	4,838,867	4,468,896	4,496,668
Cash inflows - Total weighted value	2,850,012	2,452,285	2,300,132	2,327,321
Total net cash outflows (adjusted value)	1,736,136	2,386,582	2,168,763	2,169,347
Liquidity coverage ratio (%)	247.70%	186.45%	199.41%	208.44%

Year-over-year, High quality liquid assets ("HQLA") decreased by USD 0.3 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 in eMoney liabilities.

Over the year 2023 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. 2023*	*30 Sept. 2023*	*30 Jun. 2023*	*31 March. 2023*	*31 Dec. 2023*	*30 Sept. 2023*	*30 Jun. 2023*	*31 March. 2023*
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)					**4,264,049**	**4,445,226**	**4,553,378**	**4,830,601**
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of	2,887,440	2,898,687	2,810,183	2,744,516	505,302	507,270	475,220	463,728
Less stable deposits	2,887,440	2,898,687	2,810,183	2,744,516	505,302	507,270	475,220	463,728
Unsecured wholesale funding	5,679,474	6,044,524	6,211,133	6,479,240	2,271,790	2,422,406	2,489,049	2,596,292
Non-operational deposits (all counterparties)	5,679,474	6,044,524	6,211,133	6,479,240	2,271,790	2,422,406	2,489,049	2,596,292
Additional requirements	54,024	46,210	38,335	34,344	54,024	46,210	38,335	34,344
Outflows related to derivative exposures and other collateral requirements	54,024	46,210	38,335	34,344	54,024	46,210	38,335	34,344
Other contractual funding obligations	1,713,210	1,571,322	1,503,433	1,452,596	1,712,628	1,571,088	1,503,085	1,451,509
Other contingent funding obligations	5,363,078	5,059,704	4,391,471	4,156,994	-	-	-	-
TOTAL CASH OUTFLOWS					**4,543,744**	**4,546,975**	**4,505,689**	**4,545,874**
CASH - INFLOWS								
Inflows from fully performing exposures	2,652,136	2,455,890	2,363,687	2,408,582	2,530,567	2,360,662	2,247,108	2,274,128
Other cash inflows	9,149	7,093	7,475	7,631	9,149	7,093	7,475	7,631
TOTAL CASH INFLOWS	**2,661,285**	**2,462,983**	**2,371,162**	**2,416,213**	**2,502,122**	**2,367,755**	**2,254,583**	**2,281,759**
Inflows subject to 75% cap	2,661,285	2,462,983	2,371,162	2,416,213	2,502,122	2,367,755	2,254,583	2,281,759
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**4,264,049**	**4,445,226**	**4,553,378**	**4,830,601**
TOTAL NET CASH OUTFLOWS					**2,041,622**	**2,179,220**	**2,251,106**	**2,264,115**
LIQUIDITY COVERAGE RATIO					**209%**	**204%**	**202%**	**213%**

3.4.7 Net Stable Funding Ratio

During the course of 2023, the Bank complied with a the CSSF liquidity requirement, which requires a minimum Net Stable Funding Ratio ("NSFR") of 100%. At 31 December 2023, 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	1,346,868	-	-	-	1,346,868
Own funds	1,346,868	-	-	-	1,346,868
Retail deposits		2,611,851	-	-	2,350,666
Less stable deposits		2,611,851	-	-	2,350,666
Wholesale funding:		6,787,629	-	-	2,286,765
Other wholesale funding		6,787,629	-	-	2,286,765
Other liabilities:	-	174,618	-	-	-
All other liabilities and capital instruments not included in the above categories		174,618	-	-	-
Total available stable funding (ASF)					**5,984,299**
Required stable funding (RSF) Items					
Total high-quality liquid assets (HQLA)					154,065
Performing loans and securities:		2,006,962	16,419	2,569,906	2,730,642
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		1,163,671	-	-	116,367
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		498,943	16,419	2,526,180	2,404,934
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		344,349	-	43,726	209,342
Other assets:	-	1,844,166	4	128,462	324,372
NSFR derivative assets		8,262			8,262
NSFR derivative liabilities before deduction of variation margin posted		14,427			721
All other assets not included in the above categories		1,821,478	4	128,462	315,389
Off-balance sheet items		-	-	1,158	1,158
Total RSF					**3,297,662**
Net Stable Funding Ratio (%)					***181.47%***

Over the year 2023, NSFR was:

EU KM1 - Key metrics template

in thousands of USD	*31 December 2023*	*30 September 2023*	*30 June 2023*	*31 March 2023*
Net Stable Funding Ratio				
Total available stable funding	5,984,299	6,827,477	6,953,102	6,868,657
Total required stable funding	3,297,662	3,983,511	4,044,662	3,919,400
NSFR ratio (%)	181.47%	171.39%	171.91%	175.25%

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
- 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.
As part of its Continuity of Operations risk management, the Bank identifies all critical business functions, ensures the business impact analyses are performed as required, Business Continuity Plans are developed and Recovery Strategies for the critical business functions are exercised. As part of the 2023 disaster preparedness, Local Event Management/Critical Incident Team training was conducted for senior members of the Bank and an exercise was completed.

3.5.1.4 Extended Enterprise / Third Party risk

The Bank 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 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 2023 one Management Board member holds one directorship position outside PayPal Group and three Supervisory Board members hold 17 directorship positions outside PayPal Group (one member holds eleven, two others hold three each)

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 People Officer ("CPO") of PayPal Holdings, Inc., other Senior People Leaders of PayPal Holdings, Inc., members of the Global Rewards team and the People 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.

Diversity is a criteria considered for the appointment of Management Body members (as further set out above in this section). The Bank's Authorized Management takes this topic very seriously and is presently working on enhancing diversity targets and objectives.

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 Remuneration & Nomination Committee of the Bank and external support.

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.

In Luxembourg, PayPal Europe's Remuneration & Nomination Committee (the "Committee") oversees the Remuneration Policy of the Bank. The Committee is a specialized committee of the Supervisory Board 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 shall comprise at least one Member of the Audit, Risk and Compliance Committee. The current membership of the Committee includes:

Members	Voting member ?	Independent Non-Executive Director?
Dominique Reiniche (Chairperson)	Yes	Yes - Member of the Supervisory Board
Norbert Becker	Yes	Yes - Chairperson of the Supervisory Board
David Bennett	Yes	Yes - Member of the Supervisory Board and Chairperson of the Audit Risk and Compliance Committee.

The job holders of the following roles/functions are invited to attend regular meetings:

- the CEO of PayPal Europe, who is responsible for People and Compensation matters for the Bank;
- the People Business Partner of PayPal Europe, representing the global People function, and who is responsible for presenting HR matters;
- the Compensation Partner of PayPal Europe, representing the global Compensation function, and who is responsible for presenting Compensation and Regulatory compensation matters.

The aforementioned persons attend the Committee's meetings, but they are not members of it, they do not have voting rights and they do not take part in People and/or Compensation discussions which would impact them directly.

Depending on the agenda, the Committee may also invite other stakeholders to discuss or present matters falling in their remit or scope of expertise, such as:

- the Chief People Officer of PayPal, Holdings Inc.;
- the Global Head of Total Rewards of PayPal, Holdings Inc.;
- other members of the Global People or Global Total Rewards teams whose expertise would be relevant to the Committee;
- PayPal Europe's Associate General Counsel;
- PayPal Europe's Heads of Control Functions;
- any PayPal Europe or PayPal Inc. other officer desired by the Committee or its chairperson to attend the Committee.

The aforementioned persons can attend the Committee's meetings, but they are not members of it and they do not have voting rights.

The primary responsibilities of the Committee are to:

- Review and recommend to the Supervisory Board potential changes to the structure and nature of PayPal Europe's total compensation package, as determined by PayPal Europe's remuneration policy.

- Consider any pertinent changes in the external legal or regulatory environment potentially impacting compensation and benefits policies and practices for key employees, ensuring that risk/reward ratios are consistent with both short-term and long-term sustainability of PayPal Europe.
- Review the list of staff whose professional activities have a material impact on the risk profile of PayPal Europe.
- Review and recommend to the Supervisory Board the proposed compensation for the annual salary review of PayPal Europe.
- Review and recommend to the Supervisory Board the proposed performance assessments of senior executives within the scope of the remuneration policy and make recommendations on their proposed compensation and equity allocations.
- Oversee the remuneration of the senior officers in the independent control functions, including the audit, risk management and compliance functions.
- Ensure the adequacy of the information provided to shareholders on remuneration policies and practices, in particular, on a proposed higher maximum level of the ratio between fixed and variable remuneration.
- Make recommendations to the shareholders of PayPal Europe for all matters relating to the appointment and removal of members of the Supervisory Board and its various specialised committees (noting that the membership of the Supervisory Board shall at all times comprise a majority of independent persons, and the members of the Supervisory Board shall be appointed by the shareholders of PayPal Europe, who will also determine the number of members appointed from time to time).
- Make recommendations to the Supervisory Board for all matters relating to appointment and removal of members of Authorised Management and key internal control function appointments of, including the Chief Risk Officer, Chief Compliance Officer, and Chief Internal Auditor. Proposals by the Authorised Management of PayPal Europe to remove members of the Authorised Management or internal control functions shall be submitted to the Committee for approval and notified to the CSSF.
- The Committee shall apply a broad set of qualities and competences, including diversity, when making recommendations for the appointment of Supervisory Board Members, Authorised Management and key internal control functions. It will, in principle, aim at improving the representation of the under-represented sex among the identified members of the staff exercising management functions in accordance with Delegated Regulation 2021/923.
- Conduct an annual review of PayPal Europe’s succession plans and career development processes and assist the Supervisory Board in evaluating these plans and processes.
- Oversee the progress of diversity in PayPal Europe.

The Committee met nine times in 2023. No external consultant intervened in the course of 2023.

The compensation for the Independent NEDs consists of fixed fees only. The other Members do not receive remuneration for their Board Membership.

4.3.2 Scope of PPEU remuneration Policy

PayPal Europe’s Remuneration Policy applies to all employees of PayPal Europe, including those employees who are seconded from time to time to PayPal Europe and its Material Risk Takers who would be employed by another entity. The Policy covers in particular the remuneration of persons who are members of the administrative and management bodies of PayPal Europe as well as those categories of staff whose professional activities have a material impact on the risk profile of PayPal Europe.

4.3.3 Material Risk Takers

PayPal Europe conducts and documents on a yearly basis a detailed self-assessment to identify its members of staff whose professional activities have a material impact on PayPal Europe's risk profile, referred to as the "Material Risk Takers" (or "MRTs") or the "Identified Staff". PayPal Europe updates its list of MRTs periodically, but at least once per calendar year. PayPal Europe may update its MRTs list from time to time to reflect changes that would take place in-between the annual self-assessments.

The self-assessment is conducted by a Working Group, which includes the People (Human Resources), Enterprise Risk Management, Compliance, Legal and HR Risk functions. The identification process is conducted on the basis of:

- Quantitative and qualitative identification criteria set by article 92 of CRD V: for the year 2023, 2 employees have been identified as MRTs on the sole basis of quantitative criteria;
- Quantitative and qualitative identification criteria set by the Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council;
- An analysis of job functions and responsibilities, considering PayPal Europe's risk profile as well as PayPal Europe's organization, activities, governance framework.

The outcomes of the self-assessment and the list of MRTs is reviewed by the Authorized Management before being reviewed by the Remuneration and Nomination Committee and approved by the Supervisory Board.

As of 31 December 2023, PayPal had thirty active MRTs, as described in the following table:

Headcount	Description
5	**Members of the Supervisory Board, including the three Independent Non-Executive Directors.**
25	**PayPal employees** All of them were in Sr Manager and above levels: three Sr Managers, ten Directors, ten Sr Directors and two Vice Presidents. Out of the ten MRTs in Director level, one was employed by another PayPal company in Luxembourg but has been identified as MRT for PayPal Europe during the self-assessment process. Include the Members of the Authorised Management, members of PayPal Europe's Senior Management, the Head of Control functions and other employees identified per quantitative and or qualitative criteria during the self-assessment. Nine MRTs have been identified under multiple criteria and two employees have been identified 2 employees have been identified as MRT on the sole basis of quantitative criteria. In line with the categories set in the reporting table REM5, MRTs could be categorized as follows: 3 Members of the Management Body in the Management function, i.e. Members of the Authorized Management, 13 Employees in Corporate Functions, 5 employees in Independent internal control functions, and 4 employees in other functions, i.e. Credit, Decision Science, Markets and Partnerships, Business Development and Network and Bank Partnerships BP. Amongst those MRTs, one is employed by another PayPal entity in Luxembourg. The employee falls under the full MRT framework set by PayPal Europe.

The list of MRTs was reviewed on a regular basis during the year 2023 and the final list for 2023 has been reviewed by the Remuneration Committee and approved by the Supervisory Board during its February 2024 meeting.

4.3.4 Design and structure of the remuneration system for MRTs.

4.3.4.1 Overview of PayPal Europe's Remuneration Policy and related decision-making process

PayPal Europe's Remuneration Policy is designed to reflect both local specifics and PayPal's compensation philosophy, which 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 Remuneration Policy is reviewed on a yearly basis. In 2023, there were no major update of the Policy and updates concerned minor editorial changes, update of PayPal's organization and activities and related risks. Changes were minor and did have no impact on remuneration. The 2023 Policy update has been coordinated by the People/Regulatory Compensation teams with the support of functions such as Finance, Risk and Compensation Legal. The updates were reviewed and approved by the Authorized Management in June 2023 before being shared with the Remuneration Committee and the Supervisory Board, who approved it during its July meeting.

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 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.

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.

4.3.4.2 Remuneration structure for Material Risk Takers

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. With respect to the variable components, PayPal Europe may withhold bonuses entirely or partly when individual performance criteria are not met by the individual concerned, or when the PayPal Holdings business or PayPal Europe's performance do not meet threshold financial requirements.
The remuneration disclosure provides the overview of the current remuneration structure, but each individual employee may only be eligible for certain (and not all) of the remuneration elements.

4.3.4.3 Fixed Remuneration Components

4.3.4.3.1 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.
Employee base salaries are determined within the established salary ranges based on skills, experience and performance. Each year PayPal Europe 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 salary increases taking into account an employee's performance and salary position within the pay range. Typically, pay increases occur in April or, on an exception basis, throughout the year, within the budget provided, or as required by local law.
Individual pay and promotion decisions are reviewed by the Remuneration Committee to ensure they are appropriate and within guidelines and are fair and equitable across the PayPal Europe employee population. Final approvals are required from PayPal, Inc.'s SVP, Chief People Officer and PayPal, Inc.'s CEO, or their delegates, as applicable.
Any government mandated pay increases are implemented and are effective no later than the date required by regulations.

4.3.4.3.2 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.

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;
- 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.

4.3.4.3.3 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 does not provide defined benefit or discretionary pension schemes.
- Life, short term disability and long-term disability insurance is provided by PayPal Europe.
- Meal vouchers.
- 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.
- An 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" of such common stock on either the first day of the Offering Period or the actual Purchase Date, whichever is lower.
- Payments pursuant to the provisions of the applicable Collective Bargaining Agreement (CBA).

4.3.4.4 Variable Pay

4.3.4.4.1 Incentive Plan – Luxembourg Variable Pay Plan ("LVP")

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 LVP is designed to incent and reward PayPal Europe's employees for both PayPal performance and individual performance. All Material Risk Takers fall under the LVP.

Under the LVP, each participant will have 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 the salary.

Excluding any fixed pay elements beyond salary, total variable pay components delivered under the LVP represent the following proportions of total annual target remuneration:

- Total variable pay components at target range from 6% to 13% of total annual target remuneration for those in Levels 15 to 26, 35% to 57% of total annual target remuneration for those in Levels 27 to VP.
- Maximum total variable pay components range from 11% to 23% of total annual target remuneration for those in Levels 15 to 26, 52% to 72% of total annual target remuneration for those in Levels 27 to for those at the VP, SVP and EVP levels.

4.3.4.4.2 Other incentives

Employees are eligible to other variable pay awards, including cash-based Spot Awards, Patent Awards Transition payments and Employee Referral Bonuses. The amounts of those payments, which are not material compared to awards made under LVP, are set by internal guidelines.
In addition, from time to time, in addition to annual equity grants, an additional equity grant may be provided on a discretionary basis to high-performing, high-potential employees (a “Special Equity Award”). Participants in the LVP are eligible to receive Special Equity Award. However, any such awards granted to MRT employees are subject to approval by the Remuneration and Nomination Committee, included in the fixed-to-variable pay ratio calculation and subject to the same deferral (four years pro-rata vesting), retention (one year from vest date), malus and claw-back provisions as equity grants made under the LVP.

4.3.4.5 Performance measurement

To support its pay-for-performance 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 company.
The TVP awards for the MRTs are based on both company and individual performance. Both company and individual components weight 50% each and can range from 0% to 200%, depending on the actual performance measured:

- For the year 2023, the company component was reflective of PayPal Inc. non-GAAP operational margin and non-GAAP revenues. In addition, funding and payouts under the LVP are subject to PayPal Europe meeting minimum solvency and liquidity standards. Should PayPal Europe not meet the established minimum multi-year solvency and liquidity requirements applicable to a performance period, no TVP Award will be made for that performance period.

- The individual bonus percentage is determined by the Managers based on the impact assessment made by the Manager. MRTs not receiving the individual portion are not eligible to receive the company portion.

Managers assess and document the annual performance and achievements in the annual Impact Assessment. Managers must ensure that they have considered in the employee’s evaluation behavior standards set out in PayPal's Policies and Procedures which include, PayPal Code of Business Conduct and Ethics and applicable employment policies amongst others, avoiding excessive risk taking and working in a manner that aligns to PayPal values, Leadership Principles, and risk appetite, as well as full adherence to local laws and regulations. The Remuneration and Nomination Committee reviews the outcomes of the impact assessment and the related individual bonus percentage for all MRTs.

4.3.4.6 Ex ante and ex post risk adjustments

Variable compensation is delivered, provided that PPEU solvency and capital ratios allow for it, and is reflective of individual and collective performances as well as reflective of the risk dimension. Subject to any applicable policy and law and based on a Remuneration & Nomination Committee and People Team recommendation, variable compensation can be adjusted down to zero by the Board of Directors. The objective of such reduction at collective or individual levels is to reflect risk issues, protect the financial soundness of the institution or to respond to significant unexpected or unintended consequences that were not foreseen by the Management Bodies.

Depending on circumstances and cases, the adjustments may apply to current and previous years' variable remuneration (e.g., malus and clawback). Decisions on compensation adjustments for the MRTs shall be made by PayPal Europe's Board of Directors, based on its Remuneration and Nomination Committee's proposal.

When reviewing variable compensation proposed during the annual review cycle, the Remuneration and Nomination Committee and the Supervisory Board of Directors shall take into consideration:

- The input provided every year-end by the PayPal Europe's Risk and Compliance functions on whether performance or risk culture issues have been identified and need to be brought to the Remuneration and Nomination Committee and the Supervisory Board of Directors' attention.
- Individual risk and compliance related issues that would be reported by the Control Functions, Managers or by the People functions. As part of the individual annual performance review process for the MRTs, Managers shall confirm during the annual appraisal that Individual Risk and Compliance achievements have been considered within the performance assessment. The assessment shall consider the role and responsibilities held by the employee within the organization. When proposing individual variable pay component based on the performance assessment, Managers shall ensure that the risk and compliance achievements are properly reflected.
- Breach of ARCC escalation threshold for employees working in the PayPal Europe's Business Units: ARCC escalation threshold defined as part of PayPal Europe's risk appetite is breached for Total Capital Ratio, Liquidity Coverage Ratio and/or Net Stable Funding Ratio metrics for three consecutive months over the past year.

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, PayPal Europe may also apply an ex-post risk adjustment of up to 100% of any variable pay award to a member of MRTs, 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 adjustments lead to an increase of any initially-awarded variable remuneration.

When making ex-post risk adjustments decision, the Remuneration and Nomination Committee and the Supervisory Board of Directors shall take into consideration input from the Authorised Management, Control Functions, Managers or by the People functions:

- Managers of the MRTs must confirm to the People function through the annual impact assessment whether they are aware of any breach of compliance or misconduct that could trigger a reduction in the previously awarded variable compensation through ex-post risk adjustment measures.
- on whether performance or risk culture issues have been identified and need to be brought to the Remuneration and Nomination Committee and the Supervisory Board of Directors' attention.
- Before the vesting of deferred compensation, PayPal Europe's Risk and Compliance functions and then the Authorised Management are asked to confirm whether a need to proceed to ex-post Risk adjustments for the deferred compensation awarded to the MRTs has been identified.

4.3.4.7 Remuneration of staff in internal control functions

To prevent from conflicts of interest, PayPal Europe applies the following rules to the remuneration of staff in internal control functions:

- The total compensation should be mainly fixed compensation: the total annual actual variable pay of the employees working in Control functions shall be lower to the annual fixed compensation;
- When assessing the individual achievements of PayPal Europe's employees in control functions, the criteria used for evaluating the individual performance should predominantly be qualitative;
- The variable pay of employees has no direct link with the performance of PayPal Europe's Business Units (e-Money and Credit).

4.3.4.8 Guaranteed variable remuneration

Guaranteed variable remuneration in context of separation

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. PayPal Europe has established a procedure for the determination and approval of severance pay, which compensates employees in the case of early termination of a contract. The procedure is coordinated by the People Business Partner who involves all required stakeholders. To ensure compliance with labor law and regulations, severance payments are determined with the support of the Employment Counsel team. Any payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct. Severance payments for MRTs are submitted to the Remuneration Committee for review and approval.

Guaranteed variable remuneration in context of hiring

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). In cases where sign-on bonuses are offered as buy-outs from existing contracts, such sign-on bonuses will be aligned with the long-term interests of PayPal Europe. In addition, such sign-on bonuses will be subject to mandatory deferral, retention, claw-back and performance conditions except in cases where the sign-on bonus is offsetting instruments subject only to a deferral period, in which case the sign-on bonus will be delivered in RSUs, subject to PayPal's normal deferral (vesting) period.
The value of guaranteed variable remuneration in context of hiring is determined on case-by-case basis. The structure and amount of guaranteed variable remuneration are set to ensure compliance with regulations and to ensure PayPal remains competitive and can hire the best talents. PayPal would consider several factors to set the guaranteed variable remuneration, such as the internal level of the role, candidate's experience, skills as well as market competitiveness and scarcity (the candidate has been recruited outside Luxembourg).

4.3.5 Risks and remuneration

For the relevant performance year, Chief Risk Officer issues a note in relation to the PayPal Europe risk profile, focusing on various considerations such as the status of adherence to PayPal Europe Risk & Compliance program requirements and controls, adherence to risk appetite of PayPal Europe, assessment of conduct risk by reviewing internal complaints/misconducts cases during the year, feedback from regulatory authorities, auditors etc. These considerations are then reviewed and taken into consideration as part of decision making in relation to the compensation for PayPal Europe's MRTs.

For the year 2023, Chief Risk Officer has confirmed that:

- no individual conduct issues that would require an ex-post risk adjustments for the deferred compensation awarded to MRTs were identified;
- no situation where a designated MRT would have demonstrated an inappropriate risk appetite leading to possible - or already materialized - business and/or regulatory risk for PayPal Europe was identified;

- no adverse business impacts resulting from excessive risk taking in previous years were identified.

In addition to the above controls, Prudential Risk and Finance teams jointly assess solvency and liquidity impacts of variable pay on PayPal Europe's prudential ratios, considering multi-year projection of payouts. This assessment is based on the review of internally calculated capital needs for the entity, as well as the adequacy of the available capital to cover Pillar 2 risks, that include credit, market, operational and interest rate risks. Prudential Risk team also confirms on an annual basis that no breach of ARCC escalation thresholds for Total Capital Ratio, Liquidity Coverage Ratio and/or Net Stable Funding Ratio metrics for 3 consecutive months was observed, confirming strong financial stance of the entity allowing to fund payouts for all employees, including MRTs.

The assessment of operational/regulatory risks is also reflected in the performance evaluation of MRT employees that requires the managers to confirm, amongst others, employees' compliance with internal standards and policies, local regulatory and legislative requirements.

4.3.6 Variable-to-fixed pay ratio

Different variable-to-fixed pay ratios are applied by PayPal Europe:

- For employees in Control functions, the total annual actual variable pay of the employees working shall not be equal to or above the annual fixed compensation.
- PayPal Europe considers annually whether it is appropriate to increase the variable-to-fixed pay ratio limit to above 100% for the MRTs. Any such increase is contingent on obtaining shareholder approval. For the MRTs (excluding those in Control functions), under no circumstance shall actual variable pay of MRTs exceed the lesser of the level approved by the shareholders of PayPal Europe and 200% of fixed pay.
  For the year 2023, two MRTs had an actual variable pay in excess of 100%, with ratios of 114% and 134%. Those ratios were approved by PayPal Europe's shareholder and the CSSF was notified accordingly.

As at 31 December 2023 total actual remuneration for the MRTs was composed by 55% of fixed and 45% of variable remuneration.

4.3.7 Link between performance and level of remuneration

4.3.7.1 Main performance and criteria metrics

In line with the description provided in the "Performance measurement" section, the annual variable pay delivered under the LVP is made of a company portion and an individual portion.

The target percentages are set for each compensation grade and increase with the level of the employee.

When determining performance-based awards that are made under the LVP:

- the individual portion accounts for fifty percent. The individual bonus percentage can range from 0% to 200% and is determined by the Manager and reflects the individual performance. Managers base their individual bonus percentage proposals based on the guidance provided by the company and the annual Impact Assessment they made for each MRT. As described in the "Performance measurement" section, the Impact Assessment considers the role and responsibilities held by the employee within the organization as well as qualitative criteria, including those in relation to Risk and Compliance achievements.

- the company portion accounts for fifty percent. The company performance can range from 0% to 200%. For the year 2023, company performance was measured against the Group's non-GAAP operating margin and non-GAAP revenues.
- the total awards to be paid to the MRT remain subject to PayPal Europe's financial soundness. Should one of the following metrics not been met by PayPal Europe, no LVP award will be paid out:
  - Common Equity Tier 1 Ratio of not less than 8%, and
  - Total Capital Ratio of not less than 11.5%
  - Liquidity Coverage Ratio cannot fall below 100%
  - Net Stable Funding Ratio cannot fall below 100%

4.3.7.2 Types of instruments

The awards made under the LVP are delivered in the form of cash and PayPal Inc. Restricted Stock Units ("RSUs"). The balance between cash and RSUs has been determined to meet both compliance and market competitiveness objectives. For employees below the Vice President level, 55% of the award is made in the form of RSUs. For employees in Vice President level, this portion is increased to 60%. The table below describes the different parameters of the LVP:

Level	Weighting Cy perf. Vs. Indiv. perf	Upfront %	Deferred %	Cash portion % (applies to both Upfront and Deferred components)	RSU portion % (applies to both Upfront and Deferred component)	Deferral period	RSU holding period
27 - Sr Manager	50% / 50%	55%	45%	45%	55%	Four-years deferral (annual pro-rata vesting, subject to continued employment)	12 months from the vest date
28 – Director	50% / 50%	45%	55%	45%	55%		
29 – Sr Director	50% / 50%	35%	65%	45%	55%		
VP	50% / 50%	30%	70%	40%	60%		

4.3.7.3 Remuneration adjustments and long-term performance

In addition to the ex-post adjustment measures described in the "Ex ante and ex post risk adjustments" section, the deferral policy applied by PayPal encourages long-term performance. Under the LVP, 45% to 70% of the award is deferred over at least four years and 55% to 60% is delivered in the form of RSUs.

The deferred portion vests pro-rata over a four-year period (starting in the year following the award, i.e. two years after the performance year for which the award has been made. In addition, a one-year retention period will be applied to instruments following the vesting period, during which the instruments cannot be sold or transferred.

	UPFRONT			DEFERRED										
	Total Upfront	2024		Total Deferred	2025 (deferred 1/4)		2026 (deferred 2/4)		2027 (deferred 3/4)		2028 (deferred 4/4)		Total Cash	Total RSUs
		Cash	RSUs		Cash	RSUs	Cash	RSUs	Cash	RSUs	Cash	RSUs	Cash	RSUs
Sr Manager	55%	24.8%	30.3% Retained until 2025	45%	5.1%	6.2% Retained until 2026	5.1%	6.2% Retained until 2027	5.1%	6.2% Retained until 2028	5.1%	6.2% Retained until 2029	45%	55%
Director	45%	20.3%	24.8% Retained until 2025	55%	6.2%	7.6% Retained until 2026	6.2%	7.6% Retained until 2027	6.2%	7.6% Retained until 2028	6.2%	7.6% Retained until 2029	45%	55%
Sr Director	35%	15.8%	19.3% Retained until 2025	65%	7.3%	8.9% Retained until 2026	7.3%	8.9% Retained until 2027	7.3%	8.9% Retained until 2028	7.3%	8.9% Retained until 2029	45%	55%
Vice President	30%	12.0%	18.0% Retained until 2025	70%	7.0%	10.5% Retained until 2026	7.0%	10.5% Retained until 2027	7.0%	10.5% Retained until 2028	7.0%	10.5% Retained until 2029	40%	60%

4.3.7.4 Derogation – Principle of proportionality

PayPal Europe did not apply for the year 2023 the principle of proportionality amongst individuals nor amongst institutions.

4.3.8 QUANTITATIVE DISCLOSURE

All amounts displayed in REM 1, REM 2, REM 3 and REM 5 are in USD (1 EUR = 1.1039 USD).

4.3.8.1 EU REM1 - Remuneration awarded for the financial year

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	**Number of identified staff**	**5.00**	**3.00**	**5.00**	**15.59**
	Total fixed remuneration	695,457.00	1,767,345.57	1,651,102.97	5,460,555.19
	Of which: cash-based	695,457.00	1,589,111.48	1,492,602.51	4,835,767.42
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests	0.00	0.00	0.00	0.00
	Of which: share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00
	Of which: other instruments	0.00	0.00	0.00	0.00
	(Not applicable in the EU)				
	Of which: other forms	0.00	178,234.09	158,500.46	624,787.77
	(Not applicable in the EU)				
Variable remuneration	**Number of identified staff**	**5.00**	**3.00**	**5.00**	**15.59**
	Total variable remuneration	0.00	1,293,158.55	1,356,952.58	4,619,219.04
	Of which: cash-based	0.00	549,529.53	614,457.62	1,986,944.38
	Of which: deferred	0.00	370,150.92	375,281.05	1,131,109.25
	Of which: shares or equivalent ownership interests	0.00	743,629.02	742,494.97	2,632,274.66
	Of which: deferred	0.00	502,793.95	458,676.84	1,698,179.98
	Of which: share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00
	Of which: other instruments	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00
	Of which: other forms	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00
Total remuneration (Total fixed + Total variable)		**695,457.00**	**3,060,504.12**	**3,008,055.56**	**10,079,774.23**

4.3.8.2 EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0.93
Guaranteed variable remuneration awards -Total amount	0.00	0.00	0.00	266,780.18
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0.00	0.00	0.00	266,780.18
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0.00	0.00	0.00	0.00
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	0	0	0	0.56
Severance payments awarded during the financial year - Total amount	0.00	0.00	0.00	73,409.35
Of which paid during the financial year	0.00	0.00	0.00	73,409.35
Of which deferred	0.00	0.00	0.00	0.00
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0.00	0.00	0.00	73,409.35
Of which highest payment that has been awarded to a single person	0.00	0.00	0.00	73,409.35

4.3.8.3 EU REM3 - Deferred remuneration

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cash-based	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares or equivalent ownership interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MB Management function	**1,485,331.94**	**327,183.74**	**1,158,148.20**	**0.00**	**0.00**	**-174,776.17**	**327,183.74**	**115,586.06**
Cash-based	611,308.78	132,421.54	478,887.24	0.00	0.00	0.00	132,421.54	0.00
Shares or equivalent ownership interests	874,023.16	194,762.20	679,260.96	0.00	0.00	-174,776.17	194,762.20	115,586.06
Share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other senior management	**1,391,180.66**	**356,513.60**	**1,034,667.06**	**0.00**	**0.00**	**-116,295.32**	**356,513.60**	**126,570.75**
Cash-based	809,609.37	229,942.86	579,666.51	0.00	0.00	0.00	229,942.86	0.00
Shares or equivalent ownership interests	581,571.30	126,570.75	455,000.55	0.00	0.00	-116,295.32	126,570.75	126,570.75
Share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other identified staff	**4,556,285.46**	**1,206,546.32**	**3,349,739.14**	**0.00**	**0.00**	**-449,620.11**	**1,206,546.32**	**383,600.08**
Cash-based	2,307,818.76	650,708.81	1,657,109.95	0.00	0.00	0.00	650,708.81	0.00
Shares or equivalent ownership interests	2,248,466.70	555,837.51	1,692,629.19	0.00	0.00	-449,620.11	555,837.51	383,600.08
Share-linked instruments or equivalent non-cash instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total amount	**7,432,798.06**	**1,890,243.66**	**5,542,554.40**	**0.00**	**0.00**	**-740,691.60**	**1,890,243.66**	**625,756.89**

Share price $61.41 (closing price on last 2023 trading day)

4.3.8.4 EU REM4 - Remuneration of 1 million EUR or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	2
1 500 000 to below 2 000 000	0
2 000 000 to below 2 500 000	0
2 500 000 to below 3 000 000	0
3 000 000 to below 3 500 000	0
3 500 000 to below 4 000 000	0
4 000 000 to below 4 500 000	0
4 500 000 to below 5 000 000	0
5 000 000 to below 6 000 000	0
6 000 000 to below 7 000 000	0
7 000 000 to below 8 000 000	0

4.3.8.5 EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Management body remuneration			Business areas						
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff										28.59
Of which: members of the MB	5	3	8							
Of which: other senior				0	0	0	4.00	1.00	0.00	
Of which: other identified staff				0	0	0	8.66	3.26	3.67	
Total remuneration of identified staff	695,457.00	3,060,504.12	3,755,961.12	0.00	0.00	0.00	8,309,647.29	2,252,514.79	2,525,667.71	
Of which: variable remuneration	0.00	1,293,158.55	1,293,158.55	0.00	0.00	0.00	3,742,001.59	1,131,275.58	1,102,894.45	
Of which: fixed remuneration	695,457.00	1,767,345.57	2,462,802.57	0.00	0.00	0.00	4,567,645.69	1,121,239.21	1,422,773.26	

Remark: All employees in Independent Control Functions had an individual variable-to-fixed pay ratio below 100%.