Bankowy Fundusz Gwarancyjny

MREL Methodology

Bankowy Fundusz Gwarancyjny

Glossary

8% TLOF condition	condition referred to in Art. 274 point 1 of the Act on BFG
Act on BFG	Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring (Journal of Laws of 2024, item 487, as amended)
Act on CU	Act of 5 November 2009 on credit unions (Journal of Laws of 2024, item 512, as amended)
Act on Supervision over the Financial Market	Act of 21 July 2006 on supervision over the financial market (Journal of Laws of 2024, item 135, as amended)
Act on Trading in Financial Instruments	Act of 29 July 2005 on trading in financial instruments (Journal of Laws of 2024, item 722, as amended)
bail-in	instrument of the write-down or conversion of liabilities referred to in Art. 2 point 71 of the Act on BFG
Bankruptcy Law	Act of 28 February 2003 Bankruptcy Law (Journal of Laws of 2024, item 794, as amended)
bridge institution	bridge institution referred to in Art. 2 point 26 of the Act on BFG

BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (EU OJ L 173, 12.6.2014, p. 190, as amended)
CBR or *combined buffer requirement*	requirement referred to in Art. 2 point 88a of the Act on BFG
CET1 or *Common Equity Tier I*	equity referred to in Art. 2 point 27b of the Act on BFG
CRD	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (EU OJ L 176, 27.6.2013, p. 338, as amended)
CRR	Regulation (EE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (EU OJ L 176, 27.6.2013, p. 1, as amended)
eligible liabilites	liabilities defined in Art. 2 point 90a of the Act on BFG

Fished Bank	entity in respect of which the BFG has made a determination referred to in Art. 97h par. 3 of the Act on BFG
IFR	Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (EU OJ L 314, 5.12.2019, p. 1, as amended)
LAA or *loss absorption amount*	one of the components in the calculation of the MREL requirement; the loss absorption amount is intended to safeguard the entity's ability to cover the estimated losses at the time of initiation of the resolution or conducting write-down or conversion of capital instruments of eligible liabilities by the relevant resolution authority
LAA-TEM	loss absorption amount expressed as a percentage of the total exposure measure determined: - in accordance with Art. 97 par. 2e point 2 letter a of the Act on BFG (taking into account Art. 97 par. 2f of this Act) in the case of a resolution entity or - in accordance with Art. 97 par. 2k point 2 letter a of the Act on BFG (taking into account Art. 97 par. 2l of this Act) in the case of a non-resolution entity
LAA-TREA	loss absorption amount expressed as a percentage of the total risk exposure amount determined: - in accordance with Art. 97 par. 2e point 1 letter a of the Act on BFG in the case of a resolution entity or - in accordance with Art. 97 par. 2k point 1 letter a of the Act on BFG in the case of a non-resolution entity

LR or *leverage ratio*	ratio maintained at the level specified in Art. 92 par. 1 letter d of the CRR, calculated in accordance with Art. 429 of the CRR
MCC or *market confidence charge*	amount referred to in Art. 97 par. 2h of the Act on BFG in the case of a resolution entity or in Art. 97 par. 2n in the case of a non-resolution entity
MREL	minimum requirement for own funds and eligible liabilities referred to in Art. 97 par. 1 of the Act on BFG, calculated as the sum of the loss absorption amount (LAA) and the recapitalization amount (RCA)
MREL subordination requirement	requirement of maintaining a certain portion of MREL in the form of own funds, subordinated eligible liabilities or liabilities referred to in Art. 97b par. 1 of the Act on BFG
MREL-TEM	MREL requirement expressed as a percentage of total exposure measure, in accordance with Art. 97 par. 2b point 2 of the Act on BFG
MREL-TREA	MREL requirement expressed as a percentage of total risk exposure amount, in accordance with Art. 97 par. 2b point 1 of the Act on BFG
own funds	- in the case of entities subject to the CRR: own funds defined in Art. 2 point 16 of the Act on BFG - in the case of investment firms subject to IFR/IFD: own funds defined in Art. 9 par. 1 IFR - in the case of credit unions: own funds defined in Art. 24 par. 2 of Act on CU

Pillar 1	- in the case of entities subject to the CRR: total capital ratio referred to in Art. 92 par. 1 letter c of the CRR - in the case of investment firms subject to the IFR/IFD: the ratio being the quotient of: a) the requirement specified in Art. 11 par. 1 IFR and b) the product of the requirement referred to in Art. 11 par. 1 of the IFR and the number 12,5 - in the case of credit unions: capital ratio referred to in Art. 24 par. 5 of the Act on CU
Pillar 2	additional own funds requirement imposed by the Polish Financial Supervision Authority pursuant to Art. 138 par. 2 point 2 of the Banking Law or Art. 110y par. 3 of the Act on Trading in Financial Instruments
RCA or *recapitalization amount*	one of the components in the calculation of the MREL requirement; the purpose of the recapitalization amount is to secure compliance by the entity with its own funds requirements after exercising the right to write down or convert the capital instruments or eligible liabilities of that entity or after the resolution of a resolution group
RCA-TEM	recapitalization amount expressed as a percentage of the total exposure measure determined: - in accordance with Art. 97 par. 2e point 2 letter b and par. 2g of the Act on BFG (taking into account Art. 97 par. 2f of this Act) in the case of a resolution entity or - in accordance with Art. 97 par. 2k point 2 letter b and par. 2m of the Act on BFG (taking into account Art. 97 par. 2l of this Act) in the case of a non-resolution entity
RCA-TREA	recapitalization amount expressed as a percentage of the total risk exposure amount determined:

	- in accordance with Art. 97 par. 2e point 1 letter b of the Act on BFG in the case of a resolution entity or - in accordance with Art. 97 par. 2k point 1 letter b of the Act on BFG in the case of a non-resolution entity
resolution entity	entity referred to in Art. 2 point 41a of the Act on BFG
sale of business	instrument of the sale of business referred to in Art. 2 point 49 of the Act on BFG
SPE	single point of entry strategy; resolution strategy assuming that resolution instruments are applied only to the parent entity in the resolution group, which is the only entity subject to resolution in the entire capital group
TEM or *total exposure measure*	total exposure measure referred to in Art. 429 par. 4 of the CRR
TLAC	total loss-absorbing capacity requirement introduced at the global level for global systemically important banks (G-SIBs)[1]; prototype of the MREL requirement
TLOF or *total liabilities, including own funds*	sum of own funds and total liabilities (where total liabilities are calculated as liabilities less equity and subordinated liabilities included in own funds)

[1] The document containing the rules for establishing and maintaining the TLAC requirement is available at the following link: https://www.fsb.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf

Top-Tier Bank	entity referred to in Art. 97h par. 1 of the Act on BFG
TREA or *total risk exposure amount*	- in the case of entities subject to the CRR: total risk exposure amount referred to in Art. 92 par. 3 of the CRR - in the case of investment firms subject to the IFR/IFD: product of the requirement defined in Art. 11 par. 1 of the IFR and the number 12,5 - in the case of credit unions: sum of capital requirements for credit, operational and currency risk multiplied by 20 (in accordance with §3 point 2 of the Regulation of the Minister of Finance of 27 August 2013 on the solvency ratio of the credit union, Journal of Laws of 2013, item 1102)

Reservations

Guided by the principle of transparency, the Fund presents the MREL methodology adopted for the 2024 planning cycle.

The Fund notes that in each case the basis for determining the MREL are the principles set forth in the provisions of the Act on BGF, which provide a common basis for determining the MREL for all entities.

The methodology is a document that indicates the intention and general approach of the Fund to determine MREL within the binding legal provisions. The Fund reserves the right to modify the MREL methodology in the future, in particular taking into account legislative changes, practical experience and the situation in the financial sector. Additionally, the Fund emphasizes that the MREL is an individual requirement set for each entity and when determining the MREL for individual entities, the Fund must in particular follow the general principles referred to in Art. 97 par. 2 of the Act on BFG. This means that in individual cases it is possible to apply, under existing legislation, different solutions taking into account the specificity of the given entity.

The document lays down the Fund's approach, under existing legislation, to setting the MREL for specific groups of entities falling within the scope of the obligation to meet the MREL requirement. For this reason the structure of this document has been subordinated to the division into groups of entities subject to the MREL requirement and their status resulting from the planned strategy of dealing with the entity in case of failing or likely to fail. The above enumerated factors are main determinants of the way for setting the MREL. Thus, the methodology contains directional guidelines on the MREL determination applied by the Fund for (in the indicated order):

1) entities subject to the CRR,
2) investment firms subject to the IFR/IFD,
3) credit unions.

For each of the above-mentioned group of entities, the assumed method of determining the MREL has been defined, depending on the planned procedure (strategy) for each entity in the event of failing or likely to fail specified in the resolution plan and the specific features of the entities subject to the MREL requirement.

In comparison to the previous MREL methodology, the Fund is in particular introducing the following changes:

- specification of the intended method of determining the MREL for banks operating in the form of a joint-stock company and cooperative banks that are not participants of IPS, for which the instrument of the sale of business has been indicated in the resolution plans as the preferred resolution instrument,
- specification of the intended method of determining the MREL for a Top-Tier Bank and a Fished Bank,
- indication of the Fund's expectation to meet part of the MREL with debt instruments (other than CET1).

The Fund notes that in each case the basis for determining the MREL are the principles set forth in the provisions of the Act on BGF, which provide a common basis for determining the MREL for all entities. While determining the MREL the Fund also takes into account the specific provisions applicable to various groups of entities, which contributed to the way of presentation of this methodology by the division of entities.

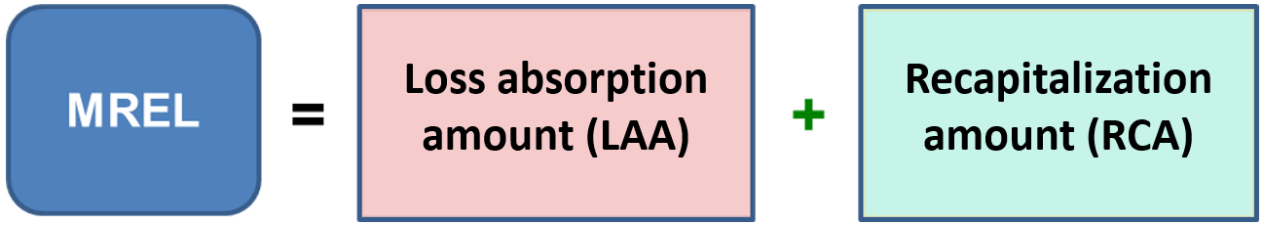
1. General rules of MREL determination

According to the current regulations, the MREL is expressed as a percentage of :

1) total risk exposure amount (TREA) and
2) total exposure measure (TEM) – only for entities subject to the CRR.

The MREL requirement is calculated as a sum of two elements, i.e.:

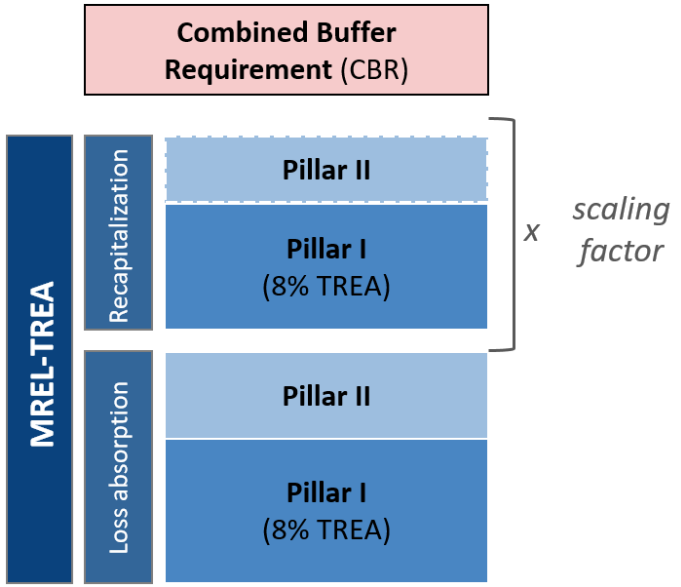
- loss absorption amount (LAA) equal to, as a rule, the amount of applicable requirements for own funds (basic and add-on) and
- recapitalization amount (RCA) equal to, as a rule, the product of applicable requirements for own funds and the scaling factor.



The above mentioned elements are calculated separately for both MREL forms.

The recapitalization amount which is part of the calculation of the MREL-TREA may be increased by the Fund by the so-called market confidence charge (MCC). In accordance with the assumptions adopted by the Fund, this buffer will be used in particular in the case of banks that are non-resolution entities operating within the groups for which the preferred resolution strategy is SPE, which is discussed further in the methodology.

The calculation of the MREL does not take into account the amount of capital buffers applicable to the entity. In addition, Common Equity Tier 1 capital used to meet the combined buffer requirement cannot be simultaneously used to meet the MREL requirement expressed as a percentage of TREA.



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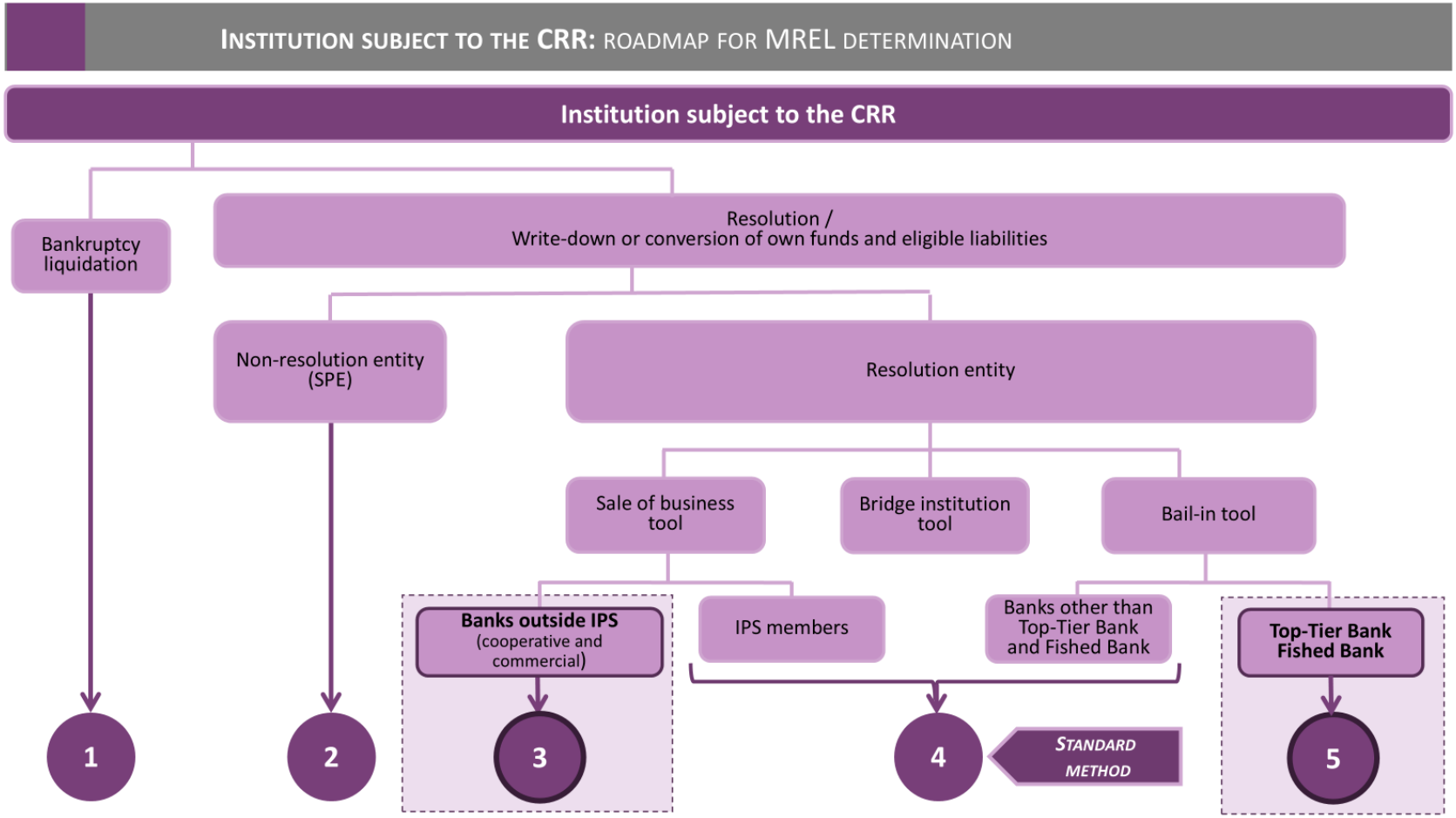
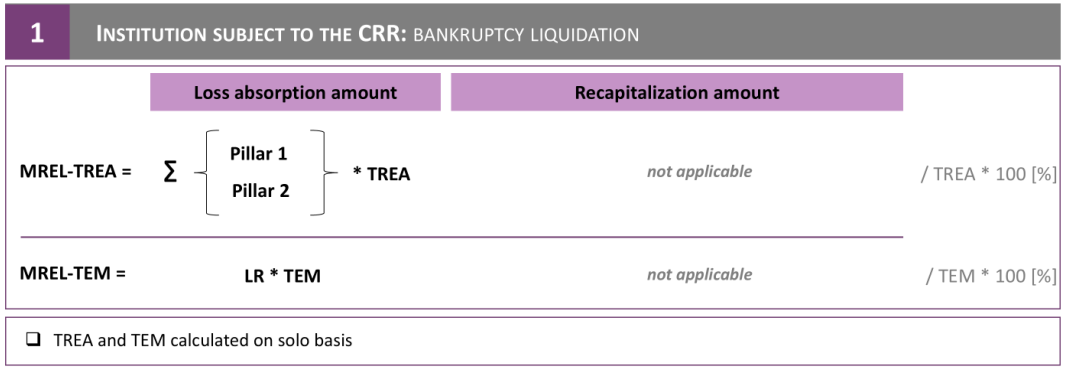
2. MREL for entities subject to the CRR



The provisions of the Act on BFG specify the scope of entities for which the Fund determines the MREL. First of all, these are entities subject to the CRR regime - banks, as well as investment firms, provided that they are not subject to the regulations of the IFR/IFD package. The diagram shows the types of strategies that determine the methodology for setting the MREL for this category of entities. The detailed approach of the Fund is presented on the following pages (according to the numbers indicated in the diagram).

1 In the case of entities for which the liquidation under insolvency proceedings has been assessed in the resolution plans as credible and feasible the MREL is limited to the amount of own funds requirements applicable to the entity. In the case of such entities, the Fund does not specify the recapitalization amount and the MREL is limited only to the loss absorption amount, calculated in accordance with the formula indicated in the diagram. Despite the fact that the algorithm for determining the MREL for entities for which the preferred strategy is liquidation is based only on the LAA, in accordance with the Act on BFG the Fund is still required to specify the MREL as a percentage of TREA and TEM. The MREL is based on the individual data, regardless of whether the entity prepares its statements also on consolidated basis. The entity must always meet the MREL requirement calculated as a percentage of TREA and TEM.



On 22 April 2024 in the Official Journal of the European Union the Directive (EU) 2024/1174 of the European Parliament and of the Council of 11 April 2024 amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities has been published.

According to Art. 1 point 2 letter b of this directive, which introduces par. 2a of Art. 45c of the BRRD, as a rule *„[r]esolution authorities shall not determine the requirement referred to in Art. 45 par. 1 for liquidation entities (…)", however if the exception included therein applies the requirement may be determined.*

An amendment to the methodology for the MREL determination will be introduced after the above provision is implemented in national law.

2 The next group of entities covered by the CRR for which the Fund determines the MREL are non-resolution entities, which are subsidiaries within the structures of cross-border groups, covered by group resolution plans. Under the SPE strategy applied to these entities, the potential loss absorption and recapitalization of the entity will not be carried out by the execution of the resolution towards this entity by the Fund, but by writing down or converting own funds or eligible liabilities, as a rule, purchased (directly or indirectly) by the resolution entity of the resolution group to which the entity with SPE strategy belongs. The resolution entityis then the entity towards which the resolution tools are applied by the relevant group resolution authority.

For non-resolution entities, the Fund expresses the MREL as a percentage of TREA and TEM, in line with the general rule. The requirement must be met at all times in relation to evolving TREA and TEM.

The MREL is the sum of the loss absorption amount and the recapitalization amount in accordance with the formulas indicated in the diagram.

RCA is adjusted on the basis of a scaling factor equal to the scaling factor applied to resolution entities for which the preferred resolution tool is the bail-in (see point 4).

2 INSTITUTION SUBJECT TO THE CRR: NON-RESOLUTION ENTITY (SPE)

	Loss absorption amount		Recapitalization amount		
MREL-TREA =	$\sum$ { Pillar 1, Pillar 2 }	* TREA +	$\sum$ { Pillar 1, Pillar 2 }	*TREA *(1-LAA/TREA) + MCC	/ TREA * 100 [%]
MREL-TEM =	LR * TEM	+	LR * TEM * (1-LAA/TEM)		/ TEM * 100 [%]

- TREA and TEM calculated on solo basis
- MCC = $MREL_{consolidated\_amount}$ – $MREL_{solo\_amount}$, where:

  $MREL_{consolidated\_amount}$ = theoretical minimum amount of own funds and eligible liabilities expressed in currency units, calculated on consolidated basis at the level of the group of a subsidiary domestic entity (where applicable mortgage bank excluded from consolidation in accordance with Art. 97 par. 4a of the Act on BFG), assuming that MCC=0;

  $MREL_{solo\_amount}$ = theoretical minimum amount of own funds and eligible liabilities expressed in currency units, calculated on solo basis, i.e. on the basis of solo data reported by the subsidiary domestic entity, assuming that MCC=0.

Pursuant to the Act on BFG, the amount of the MREL for non-resolution entities is determined on the basis of individual data. For this reason, with respect to non-resolution entities the Fund determines the market confidence charge in order to ensure that MREL level allows for loss absorption and recapitalization of the entity taking into account that it operates within the capital group established in Poland and thus allowing to secure the entity's ability to absorb losses and recapitalize the group it participates in. It is assumed that the MCC cannot be negative.

3 For banks operating in the form of a joint-stock company and cooperative banks that are not participants of Institutional Protection Scheme (IPS), for which the instrument of the sale of business has been indicated in the resolution plans, the Fund, starting with the 2024 planning cycle and taking into account the need to ensure the availability of financing from the resolution fund for which the condition of write-down or conversion of at least 8% of the TLOF must be fulfilled, determines MREL-TEM according to the following formula:

MREL-TEM = 8% TLOF/TEM*100 [%]

and should be maintained in the form of own funds, subordinated eligible liabilities or liabilities referred to in Art. 97b par. 1 of the Act on BFG.

MREL-TREA is determined in accordance with the standard method, described in point 4.

The Fund may set a deadline for complying with the above requirement.

4 For entities whose resolution plans provide for the use of resolution instruments (resolution entities), other than the entities listed in points 3 and 5, the Fund will apply the below described approach for the determination of the MREL (the so-called “standard method”).

As a rule, also for resolution entities, the Fund expresses the MREL as a percentage of TREA and TEM. The entity must therefore meet the MREL requirement defined as a percentage of TREA and TEM at the same time. Simultaneously, the MREL is the sum of the loss absorption amount and the recapitalization amount in accordance with the formulas presented in the diagram beside. RCA is subject to adjustment based on a scaling factor depending on the adopted resolution strategy. The applied factor reflects the depletion of the scale of entity’s activity after the initiation of the resolution.

4 INSTITUTION SUBJECT TO THE CRR: RESOLUTION ENTITY
STANDARD METHOD

	Loss absorption amount		Recapitalization amount		
MREL-TREA =	**∑ { Pillar 1 / Pillar 2 } * TREA**	**+**	**∑ { Pillar 1 / Pillar 2 } *TREA *scaling factor**		/ TREA * 100 [%]
MREL-TEM[1] =	**LR * TEM**	**+**	**LR * TEM * *scaling factor***		/ TEM * 100 [%]

1. The Fund increases MREL-TEM if it is necessary to meet the minimum subordination levels stipulated in Art. 97c or Art. 97d of the Act on BFG

- ***Scaling factor*** equals:
  - bail-in → **(1-LAA/TREA)** for MREL-TREA and **(1-LAA/TEM)** for MREL-TEM
  - Sale of business tool, entities with balance sheet total ≥ 500 mln PLN → **50%**
  - Sale of business tool, entities with balance sheet total < 500 mln PLN → **25%**
  - Bridge institution tool → **determined individually**
- If the entity prepares consolidated financial statements, TREA and TEM shall be calculated on consolidated basis, otherwise the calculations should be made on solo basis
- In the case of a domestic entity that is a parent undertaking in relation to a mortgage bank exempted from the MREL such a bank shall be excluded from the consolidation (see Art. 97 par. 4a of the Act on BFG)

  → the entity informs the BFG of the value of TREA and TEM after exclusion of the subsidiary mortgage bank from consolidation

As a rule, the MREL for resolution entities is based on the consolidated data. This rule applies in particular to entities operating within capital groups. However, in the case of a resolution entity that does not prepare consolidated financial statements, the

Fund determines the MREL on the basis of individual data. This rule applies primarily to individual banks that do not form capital groups.

Pursuant to the Act on BFG, mortgage banks exempted from maintaining the MREL are not part of the consolidation for the purpose of determining the MREL at the consolidated level. It should be emphasized that this rule, however, applies only to those mortgage banks that have been exempted in accordance with Art. 97 par. 4 of the Act on BFG, meeting the conditions specified therein, i.e.:

- these banks are not allowed to take deposits, pursuant to separate regulations;
- these banks may be liquidated in accordance with the relevant bankruptcy regulations applicable to these banks or with the use of procedures corresponding to the instruments of the sale of business, a bridge institution or a separation of property rights;
- the bankruptcy provisions applicable to these banks provide for losses to be borne by creditors, including covered bonds holders, in a manner consistent with the resolution objectives.

5 Resolution entities, being members of the resolution groups whose total assets exceed the PLN equivalent of EUR 100 billion (see Art. 97h par. 1 of the Act on BFG) or with respect to which the BFG has made a determination referred to in Art. 97h par. 3 of the Act on BFG, are obliged to maintain:

— MREL-TREA not lower than 13,5% TREA and

— MREL-TEM not lower than 5% TEM

in the form of own funds, subordinated eligible liabilities or liabilities referred to in Art. 97b par. 1 of the Act on BFG.

Additionally, according to Art. 97c par. 1 of the Act on BFG, Top-Tier Bank and Fished Bank are obliged to meet the MREL subordination requirement of no less than 8% of TLOF. At the same time, the BFG, at the request of the entity, may determine a lower MREL subordination requirement, but not lower than the value determined in accordance with the following formula:

$$\text{MREL subordination requirement} \geq 8\%\ TLOF * \left(1 - \frac{3{,}5\%\ TREA}{18\%\ TREA + bufor\ CBR}\right)$$

The Fund grants approval if the following conditions are met:

1) the subordinated MREL-TREA increased by the CBR is not lower than 8% of TLOF;
2) the bank meets or demonstrates that it seeks to meet within a reasonable time the part of the MREL in an amount not less than the RCA with debt instruments (other than CET1).

In accordance with the approach adopted by the Fund, the Fund increases MREL-TREA by determining MCC, which is a component of RCA-TREA, when the MREL subordination requirement determined in accordance with the rules described above is higher than:

- MREL- TREA = max [13,5%; MREL-TREA$_{STD}$*]

* where MREL-TREA$_{STD}$ means MREL-TREA determined in accordance with the standard method described in point 4, assuming MCC=0

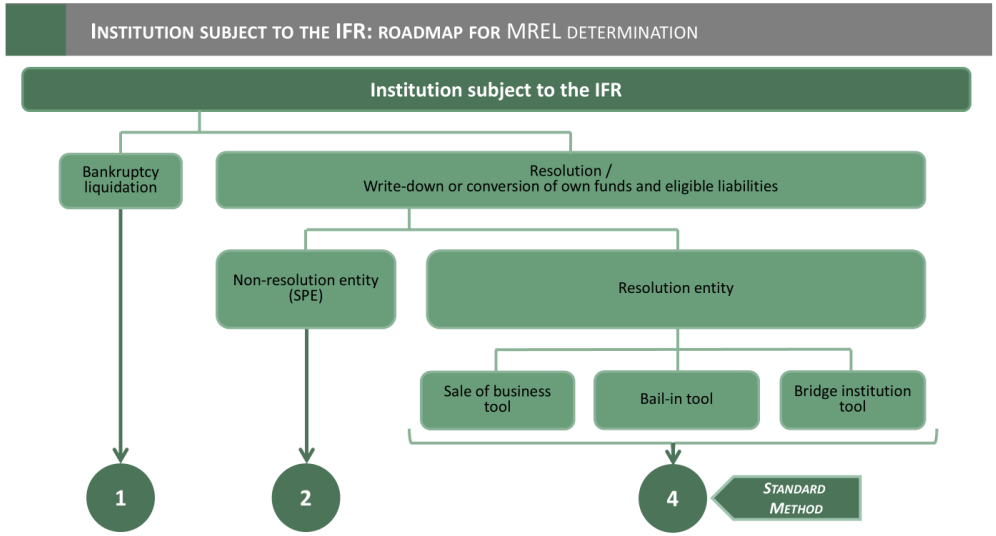
up to the level at which MREL-TREA expressed as an amount equals the MREL subordination requirement determined in accordance with the rules described above.

If the MREL subordination requirement expressed as an amount is higher than MREL-TEM expressed as an amount, the Fund requires that the entire MREL-TEM is met with own funds, subordinated eligible liabilities or liabilities referred to in Art. 97b par. 1 of the Act on BFG.

The transition period for replenishing the missing amount of own funds and eligible liabilities, taking into account the MREL subordination requirement, is set forth in Art. 97i of the Act on BFG, and is 3 years from the day following the day on which the resolution entity met the conditions for qualification as a Top-Tier Bank or a Fished Bank.

3. MREL for the entities subject to the IFR/IFD

With respect to investment firms that are subject to prudential requirements and supervision under the IFR/IFD, the algorithm for determining the MREL expressed as a percentage of TREA, as a rule is consistent with the rules applicable to the entities subject to the CRR (the MREL requirement as a sum of LAA and RCA), however, the references to capital requirements, which are the basis for the MREL requirement, are different. Compared to the entities subject to the CRR, the consideration of the IFR/IFD package in the MREL methodology comes down to the following changes:



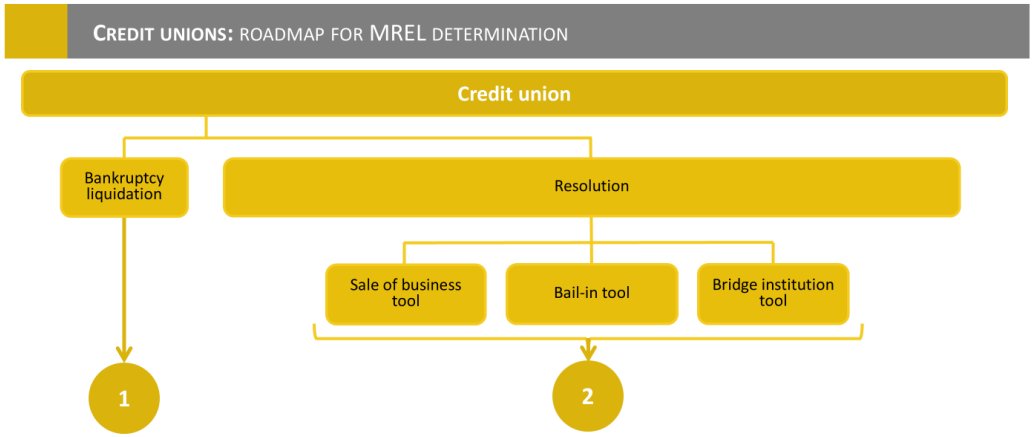
- references to Art. 92 par. 1 letter c of the CRR concerning the requirement for total capital ratio are treated as references to Art. 11 par. 1 of the IFR;
- references to Art. 92 par. 3 of the CRR concerning the total risk exposure amount are treated as references to the applicable requirement in Art. 11 par. 1 of the IFR multiplied by 12,5.

The MREL requirement expressed as a percentage of TEM is not determined due to the fact that the investment firms subject to the IFR/IFD are not subject to the leverage ratio requirement.

In the case of resolution entities subject to the IFR/IFD, the rules included in the standard method described in part 2 point 4 apply accordingly.

4. MREL for credit unions

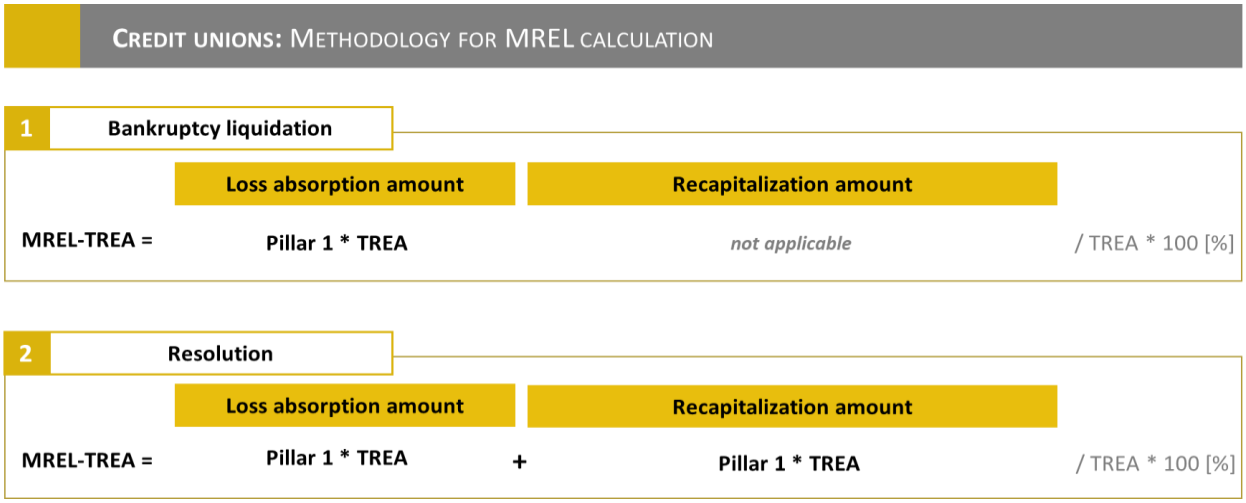
The Act on BFG also includes comprehensive regulations concerning the determination of the MREL for credit unions (see Art. 97 par. 2t of the Act on BFG). The Fund, while determining the MREL for credit unions, distinguishes two situations, i.e. a situation when the planned approach is to liquidate the credit union under insolvency proceedings and a situation when the planned approach is the resolution of the credit union.



Furthermore, the credit unions are obliged to meet the MREL until 31 December 2031[2].

The Fund's detailed approach is presented below.

[2] Art. 32a of the Act of 8 July 2021 amending the Act on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring and certain other acts (Journal of Laws of 2021, item 1598, as amended).



1 With respect to credit unions for which the liquidation under the insolvency proceedings has been assessed in resolution plans as credible and feasible, the MREL is set at the level of own funds requirements. The Fund does not calculate the recapitalization amount for such entities. Additionally, due to the fact that credit unions are not subject to the CRR, the Fund is not obliged to determine the MREL as a percentage of TEM. The MREL t is determined solely as a percentage of TREA based on the individual data as equal to the loss absorption amount according to the formula shown in the diagram.

2 For credit unions identified as subject to resolution, i.e. credit unions for which the resolution plans assume the use of resolution instruments, the Fund determines the MREL as a percentage of TREA being the sum of LAA and RCA in accordance with the formula indicated in the diagram above.

5. Eligibility criteria for liabilities, including the MREL subordination requirement*

Entities subject to the MREL requirement may decide to meet it also by issuing liabilities that will be classified as eligible liabilities. The requirements that should be met by this type of instruments are set out in Art. 97a par. 1-5 of the Act on BFG. These requirements also refer to the provisions included in Art. 72a-72c of the CRR.

In the case of credit unions, the criteria for classifying liabilities to the category of eligible liabilities are set out in Art. 97a par. 6 of the Act on BFG.

Pursuant to the principles for the determination of the MREL requirement indicated in the Act on BFG, the Fund may require that the MREL is met in the form of subordinated instruments.

The main purpose of the subordination is to increase the possibility of successful resolution through the effective use of:

- bail-in, or
- write down or conversion of capital instruments or eligible liabilities.

The effectiveness of the use of the above-mentioned instruments and actions is determined by the risk of the Fund breaking two resolution principles:

- the principle of the equal treatment of creditors within one category of subordination of the entity's liabilities (the so-called *pari passu* principle) and
- the principle of not deteriorating the creditors' situation compared to the situation in which the entity would be liquidated under the standard insolvency procedure (the so-called no-creditor-worse-off principle, NCWO).

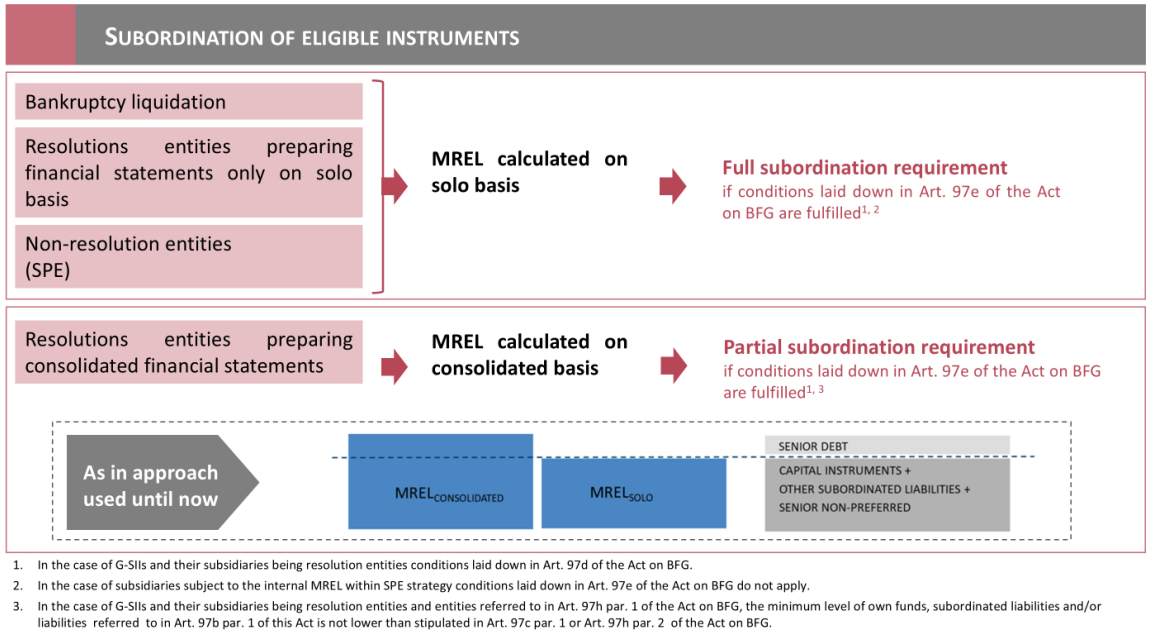
* The rules for determining the MREL subordination requirement described in this point apply to entities for which the MREL was determined on the basis of the standard method described in point 4 of part 1.

The purpose of establishing the MREL subordination requirement is to ensure that the entity's balance sheet includes sufficient amount of liabilities the seniority level of which is lower than of those excluded from the write-down or conversion. In this way, it will be possible to ensure the compliance of the Fund's activities with the *pari passu* and NCWO principles in the event of the write-down or conversion of capital instruments or eligible liabilities or the use of the bail-in instrument.

The subordination means that a certain part of the MREL is met by the entity, in principle, in the form of own funds and subordinated eligible instruments as defined in Art. 2 point 47a of the Act on BFG. While defining the subordination by the reference to the hierarchy of claims specified in Art. 440 par. 2 of the Bankruptcy Law, it can be indicated that these are own funds and liabilities that, based on the division into categories of the hierarchy of claims, are to be satisfied after the liabilities included in the fifth category. The subordination for credit unions is defined only by reference to the hierarchy of claims laid down in the Bankruptcy Law (Art. 97a par. 7 of the Act on BFG).

In addition, in the case of non-resolution entities the subordination requirement should be met with own funds and liabilities that meet the conditions referred to in Art. 98 par. 2l of the Act on BFG.

The Fund's policy regarding the amount of subordination requirement is presented in the diagram. In a situation where the MREL is determined on the basis of individual data, full subordination is required, which means that the amount of the MREL is equal to the amount of the subordinated MREL. In the case of entities for which the MREL is determined on the basis of consolidated data, the Fund maintains the current approach, i.e. a part of eligible liabilities in the amount representing the difference between the MREL requirements calculated on a consolidated basis and the MREL requirements calculated on the individual basis may be met in the form of senior liabilities. The MREL is therefore partially subordinated in this case[3].



1. In the case of G-SIIs and their subsidiaries being resolution entities conditions laid down in Art. 97d of the Act on BFG.
2. In the case of subsidiaries subject to the internal MREL within SPE strategy conditions laid down in Art. 97e of the Act on BFG do not apply.
3. In the case of G-SIIs and their subsidiaries being resolution entities and entities referred to in Art. 97h par. 1 of the Act on BFG, the minimum level of own funds, subordinated liabilities and/or liabilities referred to in Art. 97b par. 1 of this Act is not lower than stipulated in Art. 97c par. 1 or Art. 97h par. 2 of the Act on BFG.

[3] In the case of a resolution entity that prepares financial statements on a consolidated basis, for which TREA on the consolidated basis is lower than on the individual basis, the MREL calculated on the basis of the consolidated data is fully subordinated.

It should be emphasized that in the case of resolution entities referred to in Art. 97e of the Act on BFG, the possibility of determining the subordinated MREL requirement depends on fulfilling the conditions referred to in this article, i.e.:

1. the obligations referred to in Art. 97a of Act on BFG, which are not subordinated liabilities, have the same priority in claims' hierarchy in the insolvency proceedings as liabilities excluded from the application of the write-down or conversion in accordance with Art. 206 paragraph 1 or 3 of the Act on BFG;
2. at least one of the following conditions is met:
    a. there is a risk that as a result of the planned application of the write down or conversion of liabilities to the liabilities referred to in Art. 97a of the Act on BFG, which are not subordinated liabilities and which are not excluded from the application of the rights to write down or convert in accordance with Art. 206 par. 1 or 3 of the Act on BFG, creditors whose claims result from these liabilities will suffer greater losses than they would have suffered in insolvency proceedings, or
    b. fulfillment of the requirement referred to in Art. 97 par. 1 of the Act on BFG, by means of own funds, subordinated eligible instruments or liabilities referred to in Art. 97b of the Act on BFG, will allow to remove circumstances that prevent or hinder the execution of the resolution, identified during the resolvability assessment of the resolution plan or the group resolution plan, or is necessary to ensure that the resolution objectives can be achieved, in particular in the case of an entity whose bankruptcy would have a significant adverse effect on the financial system or could pose a threat to financial stability or the economy;

3. the amount of own funds and other subordinated liabilities does not exceed the amount necessary to ensure that the creditors referred to in point 2 do not suffer losses greater than losses which they would have suffered in the insolvency proceedings.

6. Share of debt instruments in the minimum requirement for own funds and eligible liabilities

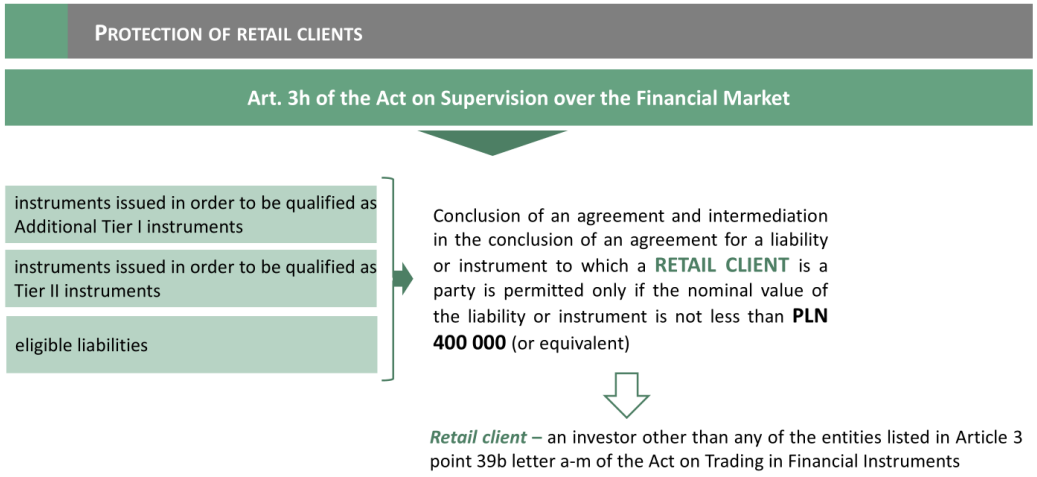
In order to improve the ability of conducting the resolution, the Fund expects that the MREL in part not lower than the amount equal to RCA-TREA will be met with debt instruments (other than CET1), i.e.:

- Additional Tier I instruments,
- Tier II instruments,
- eligible liabilities.

Failure to meet that expectation may result, depending on the resolvability assessment of an individual entity's resolution plan, in the Fund's identification of an impediment to resolvability, and consequently the issuance of the recommendations referred to in Art. 95 par. 4 of the Act on BFG.

7. Protection mechanism for individual clients (“retail clients”)

Taking into account the need to protect non-professional investors, a rule has been introduced that concluding an agreement or intermediating in concluding an agreement for an instrument included in the MREL other than CET 1 instruments, to which a retail client is a party, is allowed, provided that the nominal value of this liability or instrument is not lower than PLN 400,000 or its equivalent in another currency.



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