Bankowy Fundusz Gwarancyjny

# MREL Methodology

## Glossary

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| *Act on BFG* | Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring (Journal of Laws of 2020, item 842, as amended) |
| *Act on CU* | Act of 5 November 2009 on credit unions (Journal of Laws of 2020, item 1643, as amended) |
| *Act on Supervision over the Financial Market* | Act of 21 July 2006 on supervision over the financial market (Journal of Laws of 2020, item 2059, as amended) |
| *Act on Trading of Financial Instruments* | Act of 29 July 2005 on trading of financial instruments (Journal of Laws of 2021, item 328, 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 2020, item 1228, as amended) |
| *bridge institution* | bridge institution referred to in Art. 2 point 26 of the Act on BFG |
| *CBR* or *combined buffer requirement* | requirement referred to in Art. 2 point 88a of the Act on BFG |

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| *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 2013 item 176, 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 2013 item 176, p.1 as amended) |
| *eligible liabilites* | liabilities defined in Art. 2 point 90a 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 2019 item 314, 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 |

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| *LAA-TEM* | loss absorption amount expressed as a percentage of the total exposure measure determined:<br>- 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<br>- in accordance with Art. 97 par. 2k point 2 letter a of the Act on BFG (taking into account Article 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:<br>- in accordance with Art. 97 par. 2e point 1 letter a of the Act on BFG in the case of a resolution entity or<br>- 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 CRR, calculated in accordance with Art. 429 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-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 |

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| *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 CRR: own funds defined in Art. 2 point 16 of the Act on BFG<br>- in the case of investment firms subject to IFR/IFD: own funds defined in Art. 9 par. 1 IFR<br>- 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 CRR: total capital ratio referred to in Art. 92 par. 1 letter c CRR<br>- in the case of investment firms subject to 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 IFR and the number 12,5<br>- in the case of credit unions: capital ratio referred to in Art. 24 par. 5 of 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 of 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: |

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| | - 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<br>- in accordance with Art. 97 par. 2k point 2 letter b and par. 2m of the Act on BFG (taking into account Article 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:<br>- in accordance with Art. 97 par. 2e point 1 letter b of the Act on BFG in the case of a resolution entity or<br>- in accordance with Art. 97 sec. 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 CRR |

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| *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) |
| *TREA* or *total risk exposure amount* | - in the case of entities subject to CRR: total risk exposure amount referred to in Art. 92 par. 3 CRR<br>- in the case of investment firms subject to IFR/IFD: product of the requirement defined in Art. 11 par. 1 IFR and the number 12,5<br>- 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, item 1102) |

[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 .

## Introduction

On 7th June 2019 in the Official Journal of the EU the legal acts of the so-called Banking Package were published. The package includes amendments to the BRR and CRD directives and the CRR regulation.

From the point of view of resolution, the key modifications introduced by the above-mentioned legal acts include:

- supplementing the definitions list with "resolution entity" and "resolution group", which will be applied when planning a resolution strategy and setting the MREL requirement,
- introduction of the TLAC requirement for global systemically important institutions,
- change of MREL calculating rules to accommodate new definitions, as well as to ensure greater consistency between MREL and TLAC requirements,
- change of the basis for the calculating the MREL requirement (from the percentage of total liabilities, including own funds (TLOF) to the percentage of the total risk exposure amount (TREA) and the percentage of the total exposure measure (TEM)),
- introduction of provisions on the subordination requirement,
- introduction of provisions regulating the rules applied towards entities that do not meet the MREL requirement.

Accordingly, it was necessary to amend the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (Act on the BFG) in order to reflect the above-mentioned modifications in the resolution framework in Poland. The work on the amendment to the Act on BFG started in March 2020 and ended by adoption of the Act of 8 July 2021 amending the Act on Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring and some other acts (Journal of Laws, item 1598), which entered into force in the essential part on 15th September 2021.

The amendment to the Act on BFG in the above-mentioned scope necessitates the modification of the Fund's approach to the determination of the MREL requirement. This issue was signaled to banks and the planned approach to setting the MREL requirement within the new legal framework was presented in February 2021.

This document sets out the MREL methodology adopted by the Fund after the entry into force of the amendment to the Act on BFG implementing the Banking Package. The methodology is consistent with the draft metodology presented to entities at the earlier stage.

This document 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 banking sector. Additionally, the Fund emphasizes that the MREL requirement is an individual requirement set for each entity and when determining the MREL requirement for individual entities, the Fund must 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 different solutions taking into account the specificity of the given entity within the existing legal provisions. The Fund is not responsible for any business decisions made by institutions on the basis of this publication.

The document lays down the Fund’s approach, within the existing legal provisions, to setting the MREL requirement for specific groups of entities falling within the scope of the obligation to maintain the MREL requirement. For this reason, in order to facilitate the use of the document by entities, its structure 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 requirement. Thus, the methodology includes the MREL determination rules for (in the indicated order):

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

For each of the above-mentioned group of entities, the assumed method of calculating the MREL requirement 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. It should be emphasized, however, that in each case the basis for calculating the MREL requirement are the principles set out in the Act on BFG, which constitute a common basis for the determination of the level of the MREL requirement for all entities. These provisions, however, must take 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. The overall conditions for employing specific approach to the method for the determination of the MREL requirement are, however, common for all entities.

The next part of the document addresses the issues related to maintaining the MREL requirement, which are common to all types of entities. These issues relate to the new eligibility criteria of liabilities and compliance with the MREL requirement. The Fund's approach to achieving the target level of the MREL requirement was also presented.

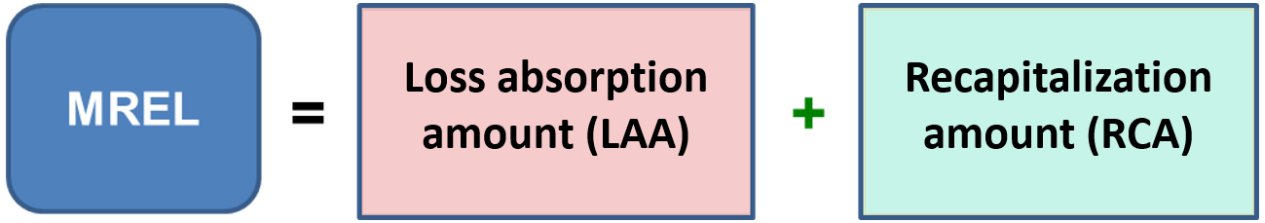
## 1. General rules of MREL calibration

According to the current regulations, the MREL requirement is no longer expressed as a percentage of the sum of total liabilities, including own funds (TLOF), but as a percentage of:

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

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

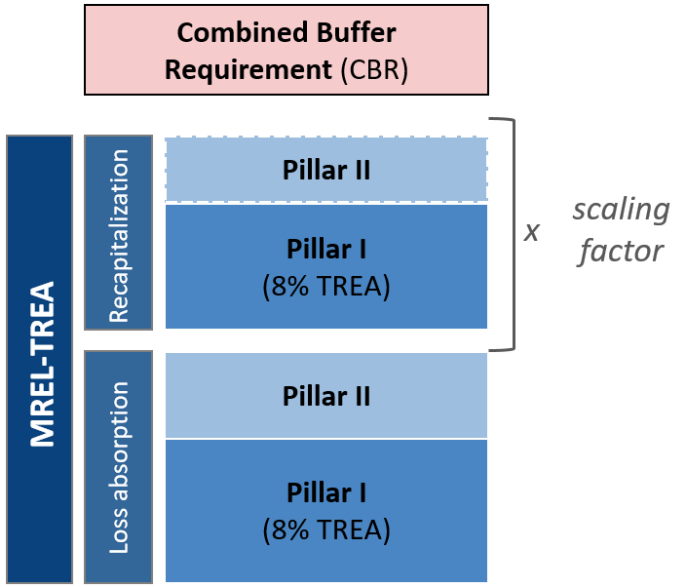
- loss absorption amount (LAA) equal to, as a rule, the amount of applicable requirements for own funds (Pillar 1 and add-on) and
- recapitalization amount (RCA) equal to, as a rule, the product of applicable requirements for own funds and the scaling factor.




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

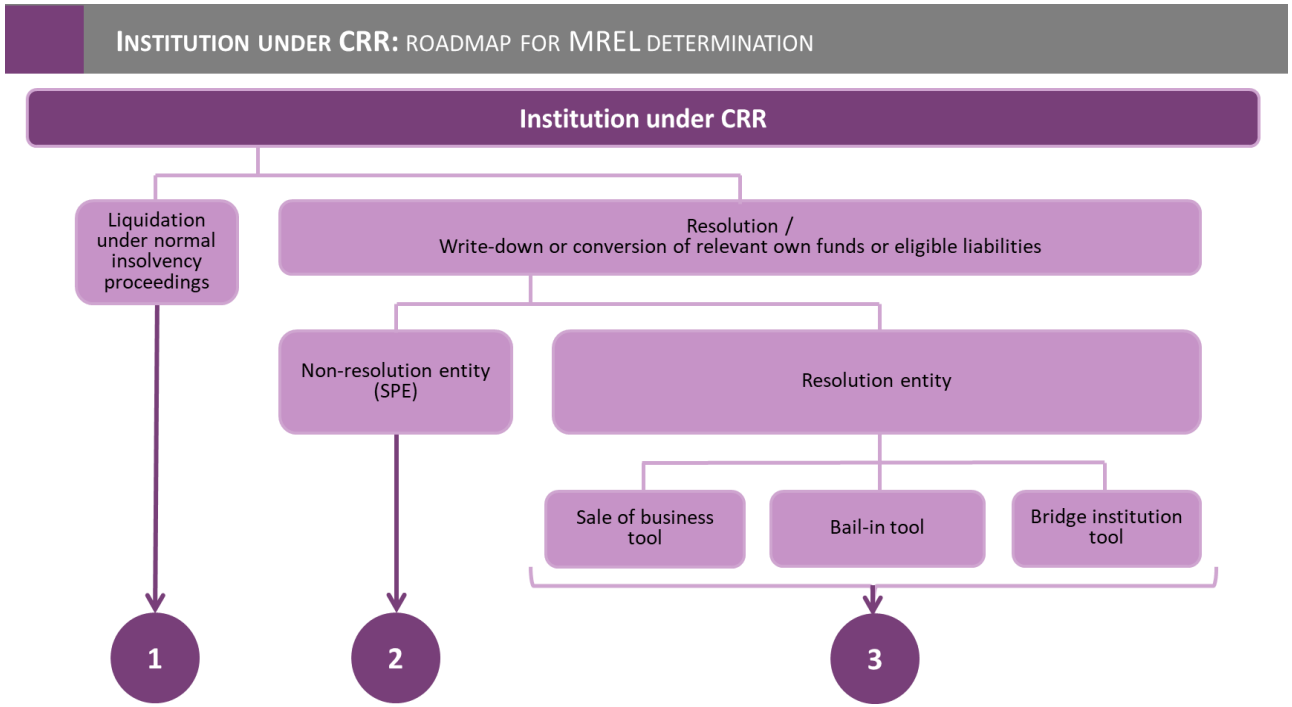
The recapitalization amount which is part of the calculation of the MREL-TREA may be increased by the Fund by the so-called market confidence charge (MCC). In accordance with the assumptions adopted by the Fund, this buffer will be used in the case of a non-resolution entities, that are subsidiaries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

Currently, the calculation of the MREL requirement does not take into account the amount of capital buffers applicable to the entity, which differs from the way it had been done in the past. 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.



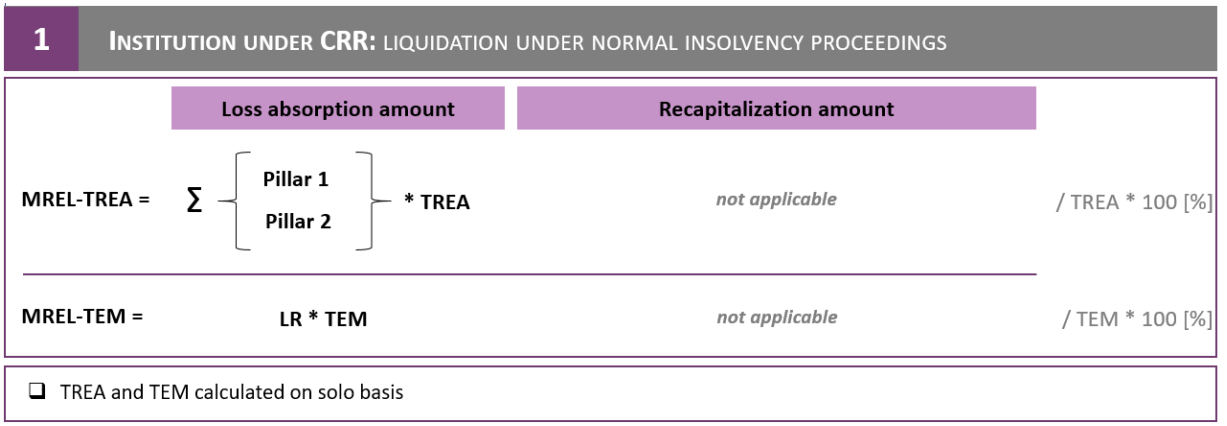
## 2. MREL requirement for entities subject to CRR

The provisions of the amended Act on BFG maintain the current scope of entities for which the Fund sets the MREL requirement. 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 requirement 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 the normal insolvency proceedings has been assessed in the resolution plans as credible and feasible the MREL requirement 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

requirement 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 calculating the MREL requirement 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 requirement as a percentage of TREA and TEM. MREL requirement is based on the individual data, regardless of whether the entity prepares its statements also on a consolidated basis. The entity must always meet the MREL requirement calculated as a percentage of TREA and TEM.




2 The next group of entities covered by CRR for which the Fund determines the MREL requirement 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. This is the resolution entity, to which the resolution tools are applied by the relevant group resolution authority.

## 2 INSTITUTION UNDER CRR: NON-RESOLUTION ENTITY (SPE)

| | Loss absorption amount | | Recapitalization amount | | |
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| 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 requirement for own funds and eligible liabilities expressed in currency units, calculated on sub-consolidated basis at the level of the domestic entity's group (where applicable mortgage credit institutions excluded from the consolidation), under the assumption that MCC=0;

  $MREL_{solo\_amount}$ = theoretical minimum requirement for own funds and eligible liabilities expressed in currency units, calculated on solo basis (based on solo data reported by the domestic entity), under the assumption that MCC=0.

For non-resolution entities, the Fund expresses the MREL requirement 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 requirement is the sum of the loss absorption amount and the recapitalization amount in accordance with the formulas indicated in the diagram.

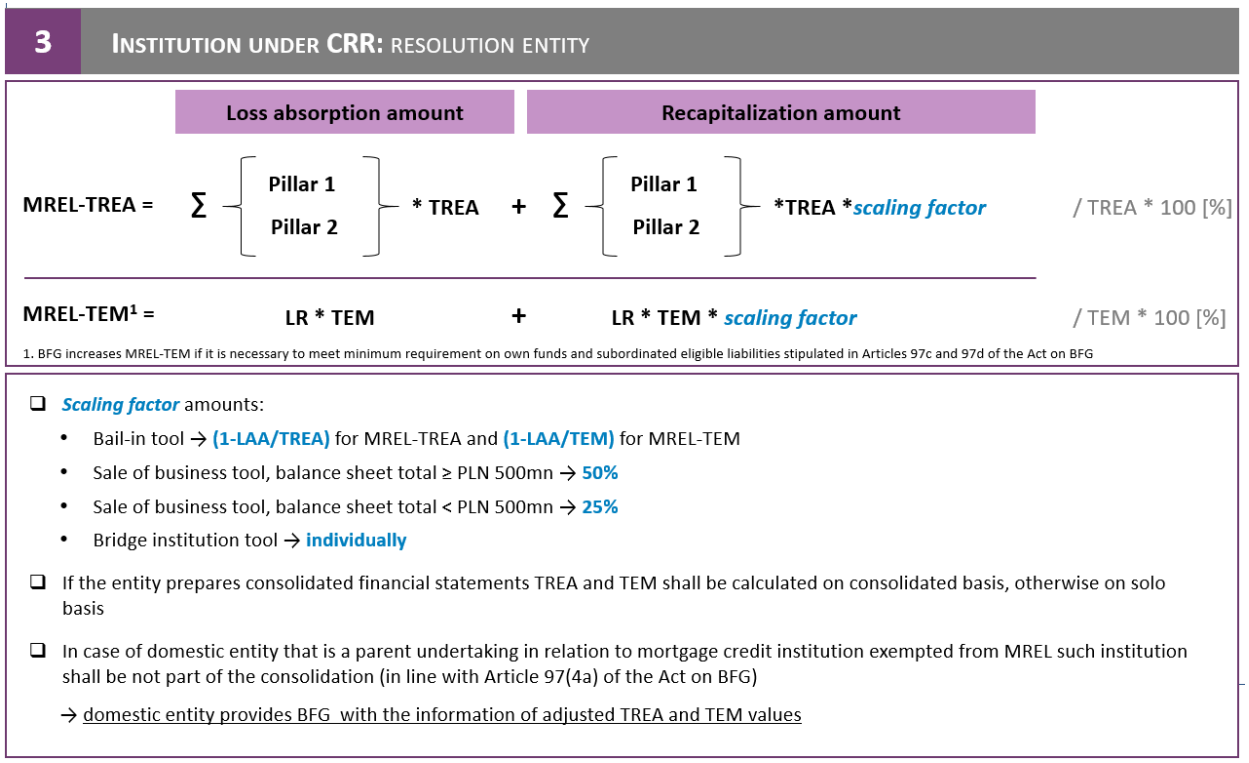
RCA is adjusted on the basis of a scaling factor equal to the scaling factor applied to resolution entities for which the preferred resolution tool is the bail-in (see part 3).

Pursuant to the Act on BFG, the amount of the MREL requirement for non-resolution entities is determined on the basis of individual data. For this reason, for this category of 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 the domestic capital group for which it is the parent undertaking and thus allowing to secure the entity's ability to absorb losses and recapitalize the group it creates. It is assumed that the MCC cannot be negative.

3 For entities whose resolution plans provide for the use of resolution instruments (resolution entities), the Fund will apply the below described approach to the determination of the MREL requirement.

As a rule, also for resolution entities, the Fund expresses the MREL requirement 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 requirement 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.

As a rule, the MREL requirement 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

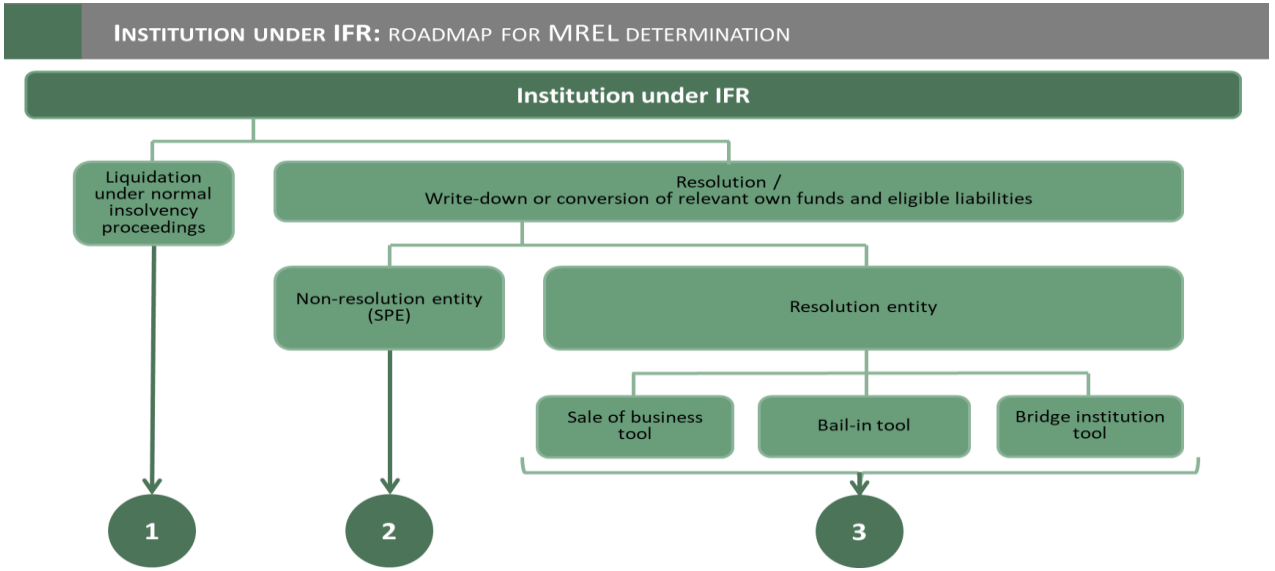


determines the MREL requirement on the basis of individual data. This rule applies primarily to individual banks that do not form capital groups.

Pursuant to the Act on BFG, mortgage banks exempted from maintaining the MREL requirement are not part of the consolidation for the purpose of calculating MREL requirement 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;
- 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 bond holders, in a manner consistent with the resolution objectives .

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




In 2021 the provisions of the IFR/IFD package entered into force. They created a separate legal framework regarding the prudential requirements and supervision rules for investment firms, excluding in principle the investment firms from the scope of the CRR application. Nevertheless, some investment firms, in particular those systemically important, should, in line with the newly adopted regulations, remain subject to the existing prudential rules established under CRR. Investment firms, to which the provisions of CRR will still apply, are subject to the rules for setting the MREL requirement described above (i.e. in the point 2 of the methodology).

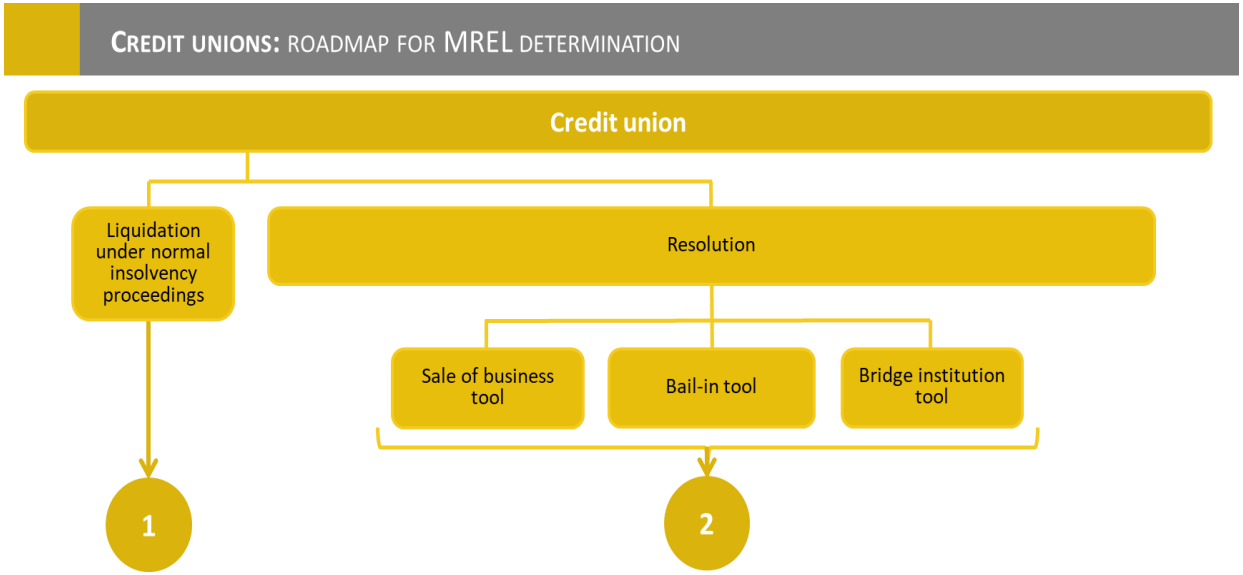
In the light of the introduced changes, it became necessary to consider in the MREL methodology the approach for the requirement's determination in relation to investment firms that are no longer subject to CRR but to the IFR/IFD package. As a rule, the algorithm for setting the MREL requirement remains consistent with the rules applicable to the entities subject to CRR (MREL requirement as a sum of LAA and RCA), however, the references to capital requirements, which are the basis for

the MREL requirement, has changed. Compared to the entities covered by 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 CRR concerning the requirement for total capital ratio are treated as references to Art. 11 par. 1 IFR;
- references to Art. 92 par. 3 CRR concerning the total risk exposure amount are treated as the references to the applicable requirement defined in Art. 11 par. 1 IFR multiplied by 12,5;
- the MREL requirement expressed as a percentage of TEM is not set due to the fact that the investment firms subject to the IFR/IFD are not subject to the leverage ratio requirement.

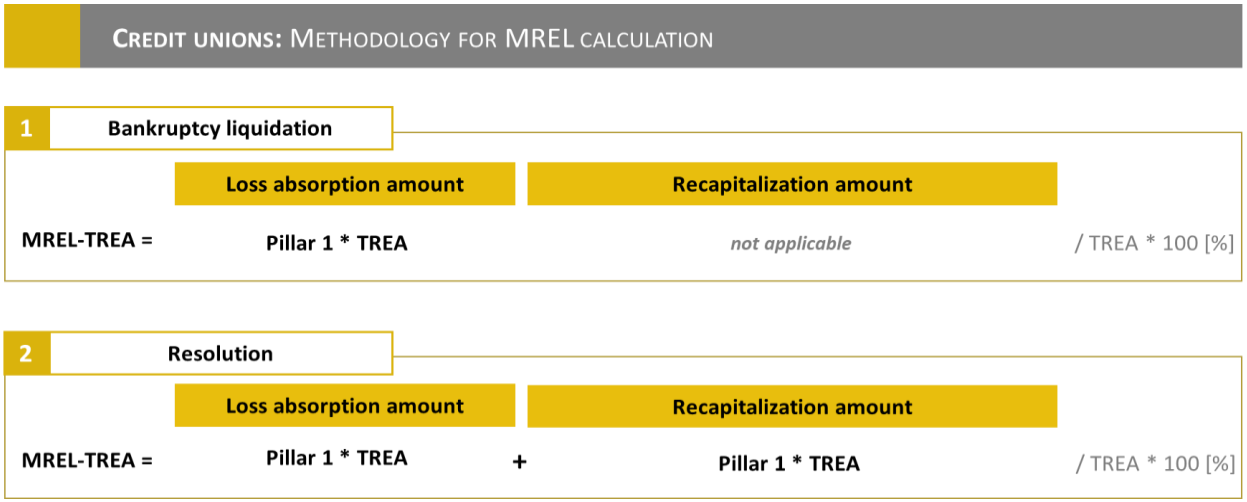
As in the case of entities subject to CRR, when setting the amount of the MREL requirement for an investment firm, three situations can be distinguished, determining the algorithm for the calculation of the requirement, depending on the planned approach to the entity.

## 4. MREL requirement for credit unions




The Act on BFG includes comprehensive regulations concerning the determination of the MREL requirement also for credit unions. They are analogous to those applicable to the groups of entities discussed above. Nevertheless, credit unions are neither covered by the definition of term "resolution entity" nor they operate within capital groups. This makes it impossible to divide credit unions into resolution entities and non-resolution entities. The Fund's approach to the determination of the MREL requirement is therefore limited only to setting the MREL requirement for credit unions in a situation when it is planned to liquidate them under normal insolvency proceedings and for credit unions for which it is planned to apply resolution instruments, treating them in such a situation, in accordance with the Act on BFG, similarly to resolution entities. The Fund's detailed approach is presented below.

1 For credit unions for which the liquidation under the normal insolvency proceedings has been assessed in resolution plans as credible and feasible, the MREL requirement 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 under the CRR regime (and they are not subject to leverage ratio requirement), the Fund is not obliged to set the MREL requirement as a percentage of TEM. The MREL requirement is determined solely as a percentage of TREA based on the individual data in the amount of 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 sets the MREL requirement 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 subordination of the MREL requirement

Entities subject to the MREL requirement may decide to meet it, also in the form of 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 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 amendment to the Act on BFG, the Fund may require that the MREL requirement is met in the form of subordinated instruments.

The main purpose of the subordination is to increase the possibility of effective 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 breaking two resolution principles:

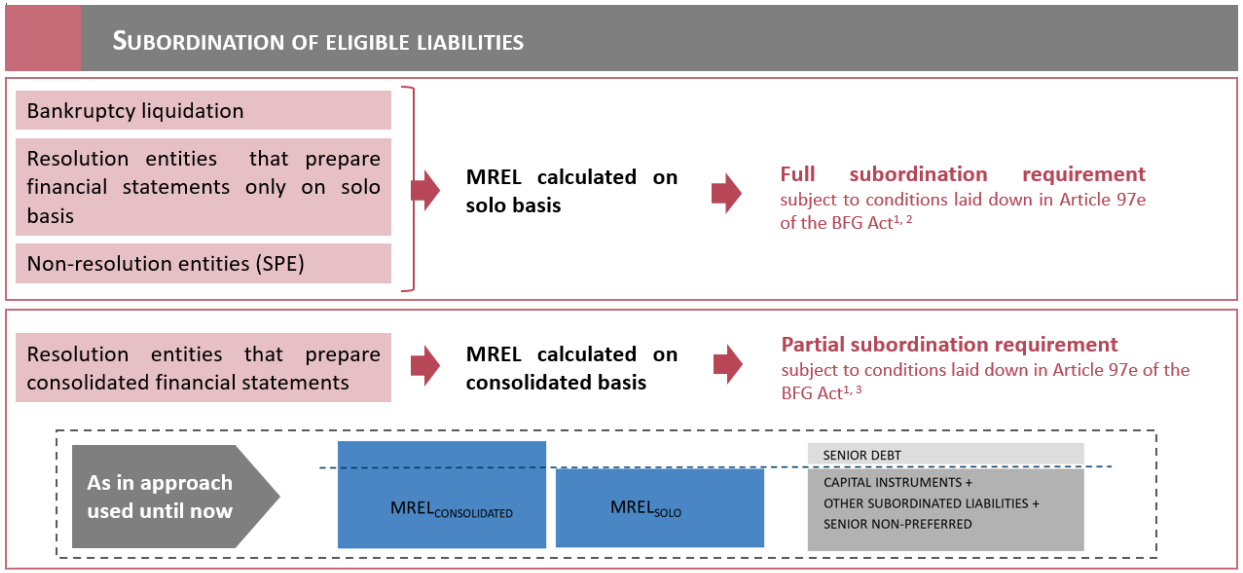
- the rule of the equal treatment of creditors within one category of subordination of the entity's liabilities (the so-called *pari passu* principle) and
- the rule of not deteriorating the creditors' situation compared to the situation in which the entity would be liquidated under the standard procedure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

The purpose of establishing the subordination requirement is to ensure that the bank's balance sheet includes sufficient amount of liabilities which seniority rank is lower than those of 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 bail-in instrument.

The subordination means that a given amount of the MREL requirement is maintained 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. Moreover, when 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 referring to claims that, based on the division into categories of the hierarchy of claims, are to be satisfied after fifth category. The subordination for credit unions is defined only by reference to the hierarchy of claims laid down in the Bankruptcy Act (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 the use of 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 below. In a situation where the MREL requirement is determined on the basis of individual data, full compliance is required, which means that the amount of the MREL requirement is equal to the amount of the subordinated MREL. However, in the case of entities for which the MREL requirement 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 MREL on the individual basis may be met in the form of senior liabilities. The MREL requirement is therefore partially subordinated in this case[2].




1. For G-SII entities conditions laid down in Article 97d of the BFG Act apply.
2. For non-resolution entities subject to internal MREL requirement conditions laid down in Article 97e of the BFG Act do not apply.
3. For G-SII entities and fished banks referred to in Article 97h par.1 of the BFG Act part of MREL subject to subordination requirements shall be not lower than stipulated in Article 97c par. 1 or Article 97h par.2 of the BFG Act

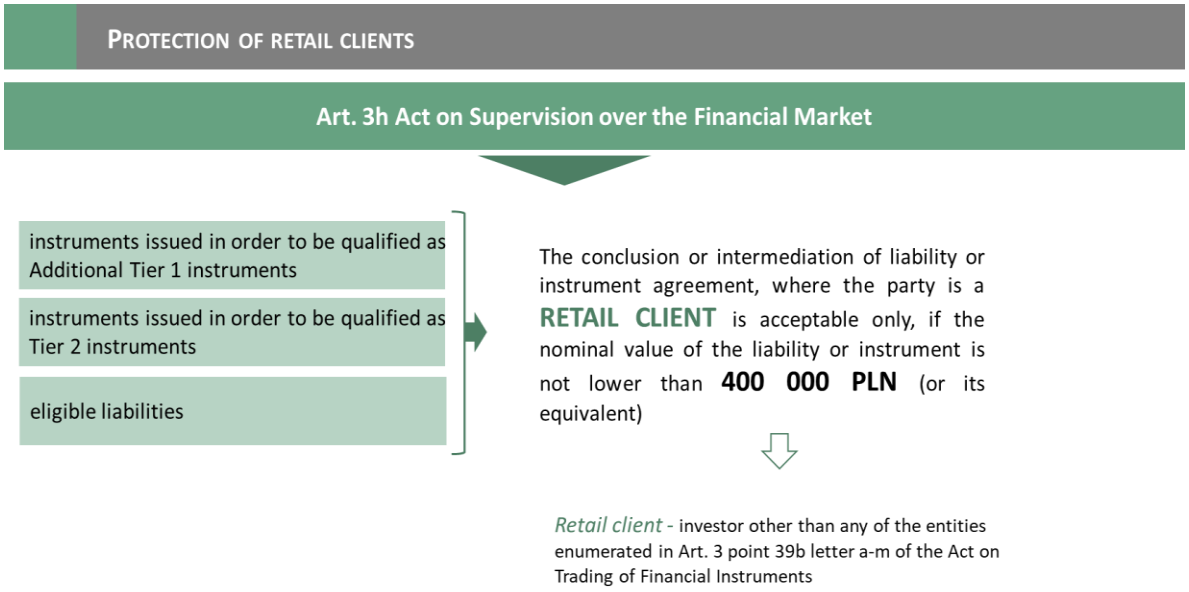
It should be emphasized that in the case of resolution entities referred to in Art. 97e of the Act on BFG, the possibility of setting the subordinated MREL requirement depends on meeting the conditions referred to in this article, i.e.:

[2] 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 requirement calculated on the basis of the consolidated data is fully subordinated.

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 obligations 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 substantive impediments to resolution, identified during the resolvability assessment of the resolution plan or the group resolution plan, or it is necessary to ensure that the resolution objectives can be achieved, in particular in the case of an entity whose bankruptcy would have significant adverse effects 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 that which they would have suffered in the insolvency proceedings.

## 6. 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 requirement other than CET 1 instruments, to which a retail client is a party, is allowed, provided that the nominal amount of this liability or instrument is not lower than PLN 400,000 or its equivalent in another currency.

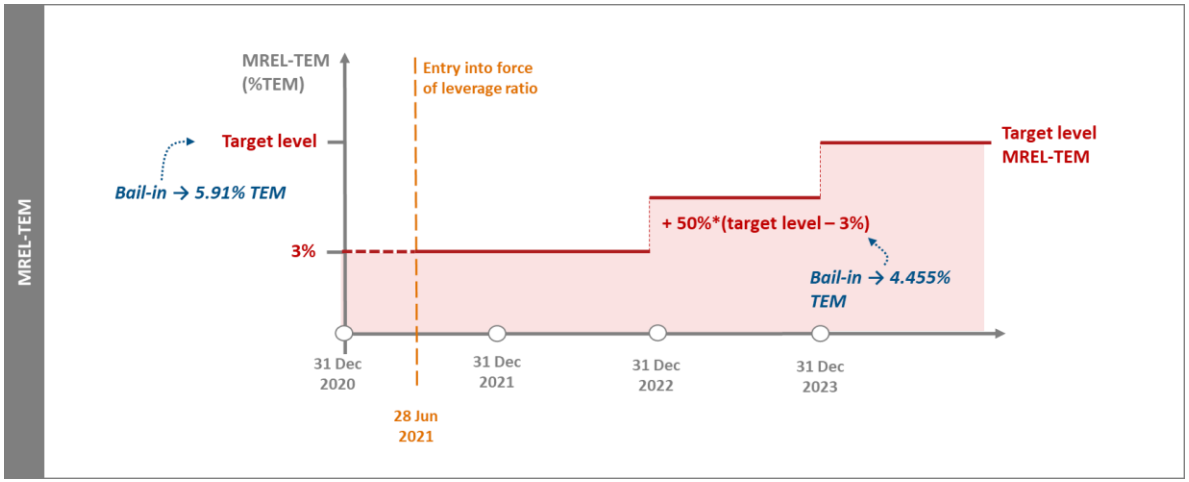


## 7. MREL attainment schedule

In accordance with the currently applicable regulations, entities should build an appropriate level of own funds and eligible liabilities that will allow them to reach the individually determined minimum amount of own funds and eligible liabilities by 31 December 2023.

Nevertheless, the build-up of loss absorption and recapitalization capacity by banks should be continuous and linear.

For this reason, the Fund sets the MREL attainment schedule for each entity, within which it defines the transitional levels of the MREL requirement, which should be met by them while being on the linear path of building MREL resources.



Entities should meet the binding intermediate target level of the MREL-TREA and MREL-TEM for the first time by 31 December 2021.

For entities, with respect to which the Fund provides for liquidation under normal insolvency proceedings, i.e. entities whose MREL requirement is limited only to the loss absorption amount, the MREL attainment schedule is not determined. These entities are obliged to meet the requirement from the moment of the receipt of the MREL requirement letter from the Fund.

The Fund will monitor and assess whether entities meet the MREL requirement on the basis of data provided to the Fund in accordance with Art. 99a of the Act on BFG.

At the same time, it should be noted that the EU legislation under the so-called Banking Package introduced to CRR a provision requiring the approval of the relevant resolution authority (in the case of domestic entities - the Bank Guarantee Fund) for the call, redeem, repay or repurchase by an entity subject to MREL eligible liabilities instruments (see Art. 78a of CRR).