

Management Board information on the current

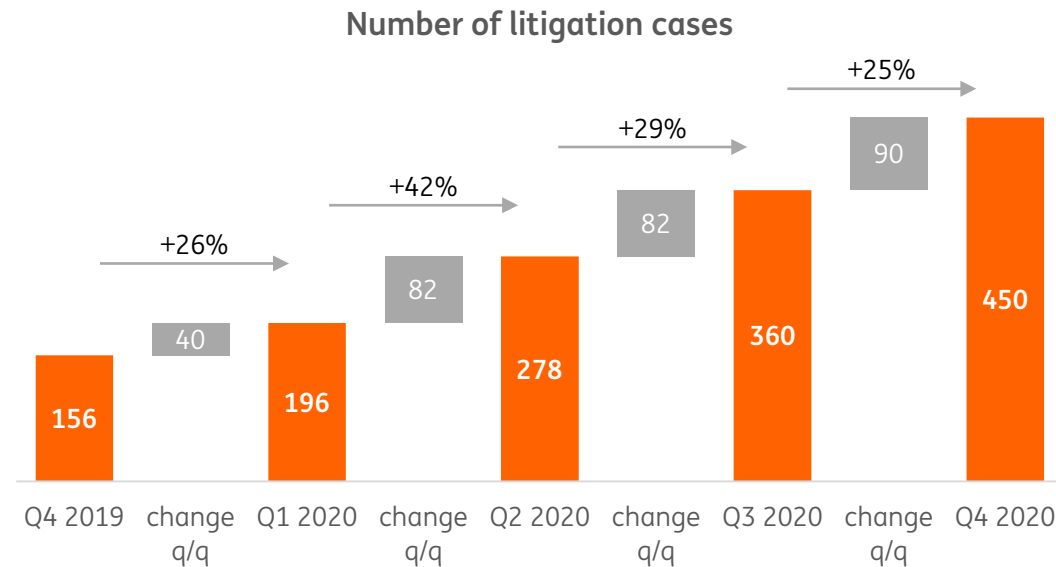
situation on the portfolio of FX mortgage loans

Proposed by the Chairman of the PFSA in December 2020

- In December 2020, the Chairman of the Office of the Polish Financial Supervision Authority (“PFSA’ Office”) presented a proposal for the voluntary conversion of CHF-indexed mortgage loans into PLN loans. According to this proposal, it would be necessary to compare mortgage loans in CHF with analogous loans in PLN on the basis of the WIBOR rate plus the margin historically applied to this type of loans and to compensate CHF borrowers for the losses they suffered in comparison with PLN borrowers. In order for banks to implement this proposal, working groups were set up under the leadership of PKO BP, and the Bank set up a special team dedicated to this project.
- The Bank is currently working on a settlement offer aimed at clients with CHF-indexed loans, which would be concluded with the participation of a mediator at the arbitration court of the PFSA’ Office.
- As part of the test, the first settlement proposals were submitted to a selected group of clients, assuming that the loan was converted in CHF as if it had been granted in PLN from the outset.

Increased number of lawsuits

- Following rulings by the Court of Justice of the European Union (CJEU) and national courts, banks have seen an increasing number of new lawsuits. In 2020, 294 lawsuits were filed against the Bank, which represents an almost 4-fold increase in lawsuits compared to 2019, where the number of lawsuits was 79. In total, by the end of 2020, 450 lawsuits were filed against the Bank, which still represents a small part of the CHF loans granted (in total, around 6,000 CHF loans were granted). In connection with the planned resolution of the Supreme Court concerning the key issues for this type of cases, a further increase in the number of lawsuits in so-called franc loans cases should be expected.



Supreme Court Resolution

On 25 March 2021, a session of the full composition of the Civil Chamber of the Supreme Court will be held to consider the request of the First President of the Supreme Court of 29 January 2021 to adopt a resolution on the following legal issues concerning the subject of loans denominated and indexed in foreign currencies:

1. If it is held that a provision in an indexed or denominated loan agreement which refers to the manner in which the FX rate is to be determined constitutes a prohibited contractual provision and is not binding on the consumer, may it be assumed that the vision is replaced by another manner of determining the FX rate which results from legal or customary rules?

If the above question is answered in the negative:

2. In the event that it is not possible to establish a FX rate binding on the parties in a loan agreement indexed to such a currency, may the agreement remain binding on the parties in the remaining scope?
3. If it is not possible to establish a FX rate binding on the parties in a loan agreement denominated in a foreign currency, may the agreement remain binding on the parties in the remaining scope?

Regardless of the content of the answers to questions 1-3:

4. If a loan agreement is invalid or ineffective, in the performance of which the bank has disbursed to the borrower all or part of the amount of the loan and the borrower has made repayments on the loan, do separate claims for wrongful performance arise in favour of each of the parties, or does a single claim, equal to the difference in performance, arise in favour of the party whose total performance was higher?
5. If a loan agreement is invalid or ineffective as a result of the unlawful nature of certain of its provisions, does the limitation period for the bank's claim for repayment of the sums disbursed under the loan begin to run from the time at which those sums were disbursed?
6. If, in the event that a loan agreement is invalid or ineffective, either party has a claim for repayment of the consideration given in performance of such agreement, may that party also claim consideration for the use of its money by the other party?

Legal risk of FX mortgage loans

The Supreme Court ruling may affect the assumptions used in the Group's model for estimating gross carrying amount adjustments arising from legal risk for the portfolio of CHF-indexed mortgage loans reported in the statement of financial position and legal risk provisions for CHF-indexed mortgage loans already removed from the statement of financial position. In particular, it may affect the number and resolution of litigation cases and the interest of borrowers in entering into voluntary settlements regarding conversion to PLN loans. The Bank will monitor the legal situation related to the Supreme Court ruling, which may have an impact on changing the assumptions in the model for the legal risk cost of CHF-indexed loans in subsequent reporting periods.

