

FX MORTGAGE LOANS STATUS REVIEW

BNP Paribas Bank Polska SA Group

Warsaw, 26/02/2021



OVERVIEW

KEY MILESTONE BEFORE MAKING ANY DECISION : SUPREME COURT RESOLUTION PLANNED ON MARCH 25TH

As a consequence of an increasing risk among the banking sector,

- In the continuity of the Court of Justice of the European Union judgments followed by national courts, Banks have been facing with a continuous increase in the number of new claims and unfavorable judgements. As for BNP Paribas Bank Polska more specifically, number of new claims raised as from mid-Q4 2020. If the share of unfavorable judgements is increasing, the ratio of favorable judgements is better in second instance than in first instance.

KNF has been promoting Voluntary program to solve FX mortgage loans issues.

- As a consequence, Chairman of KNF has been promoting the implementation of the Voluntary conversion program among the banking sector. Working Groups have been created under the leadership of PKO BP and the Bank has structured a dedicated project team. The concept is to compare CHF mortgages loans with a similar denominated PLN loans and compensate the CHF debtors for losses they have incurred relative to PLN borrowers. Some aspects of the program require further amendments and clarification (ie : tax deductibility of conversion cost). On 9 February 2021, the Management Board of the National Bank of Poland stated that the potential involvement of NBP may be considered in the process of FX loans conversion provided that lenders meet certain conditions. Involvement of NBP would be crucial to avoid zloty depreciation.

However, next key milestone remains the Supreme Court Resolution

- From the legal perspective, BNPP BP is preparing the first lawsuit for remuneration for the usage of capital. However, the next key milestone remains the Judgment of the Supreme Court regarding 6 crucial questions. However, the outcome of the resolution is uncertain and there is also a risk that the date of the resolution will be postponed.

As a result, level of provisioning and attractiveness of VP will be influenced

- Depending on the outcome of the resolution which will certainly provide guidance to the common Courts and influence the customers as well as the lawyers, the estimated level of provisioning in case of legal proceedings will be impacted. In parallel, the cost of the voluntary program has been estimated to PLN 0.7 bn for denominated loans portfolio and PLN 1.3 bn for the whole portfolio. In the continuity of the Supreme Court judgement, the parameters used for the calculation of the legal proceedings will have to be reconsidered, costs of the various scenarii adjusted and evolution of the open subjects will have to be monitored.

In context of uncertainties, we recommend not to take any decisions before 25th March

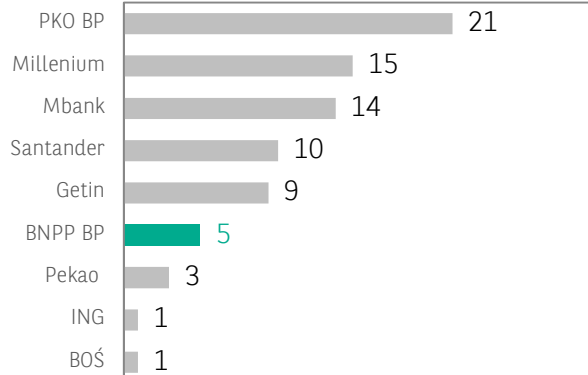
- Taking into consideration all uncertainties – main one being related to the potential impact of the Supreme Court resolution and needs of further clarifications, we are recommending not to take any decision now and to wait the outcome of the Supreme Court.

AS A CONSEQUENCE OF ECJ JUDGMENT, SIGNIFICANT DETERIORATION OF THE SITUATION

NOWADAYS, SIGNIFICANT INCREASE OF NEW LAWSUITS AGAINST BANKS

CHF mortgage loans exposures

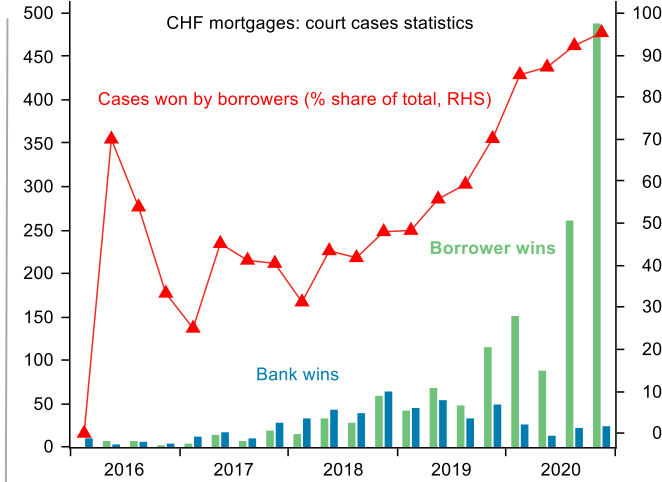
(ASSETS Q3 2020, BN PLN)



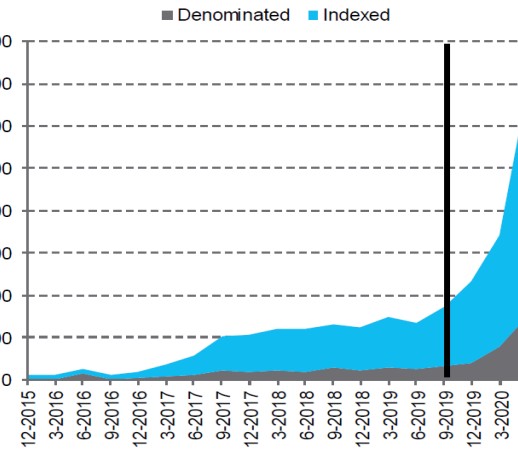
TOTAL MARKET : PLN 95 bn

CHF Mortgage loans statistics

CHF mortgages: court cases statistics



Quarterly number of new lawsuits



Quarterly figures

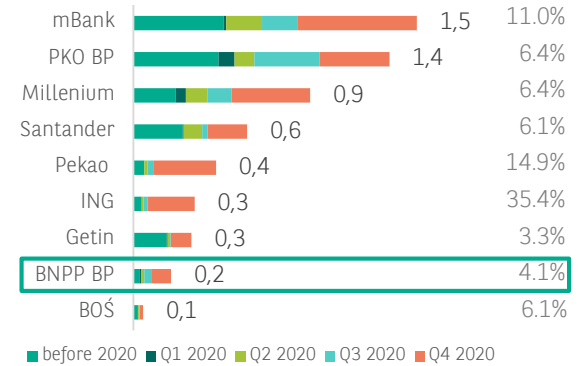
Source : NBP, Bankowebezprawie.pl, Macrobond, BNP Paribas

Provisions

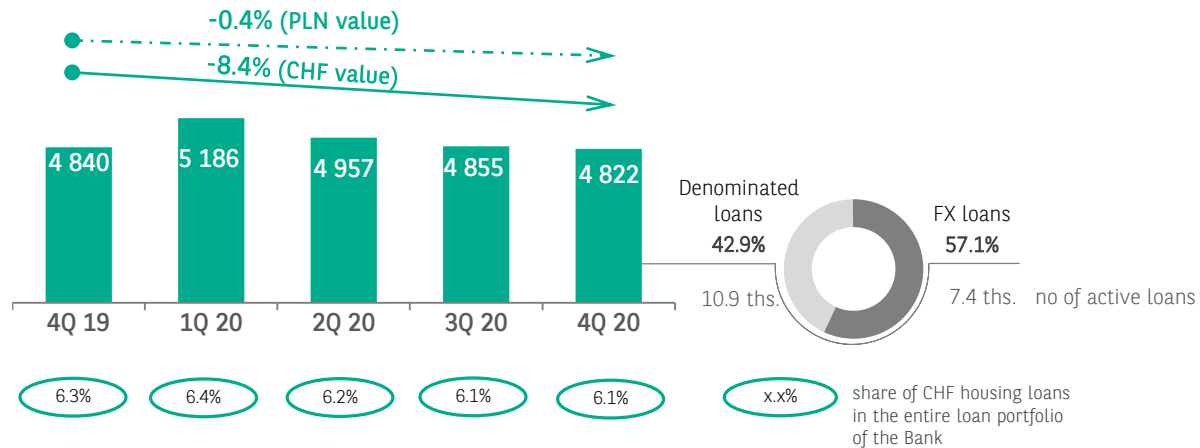
(Q4 2020, BN PLN)

Coverage ratios

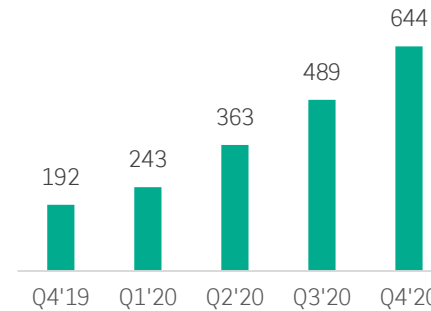
(provisions Q4 2020/exposures Q3 2020)



Gross mortgage loans (CHF)

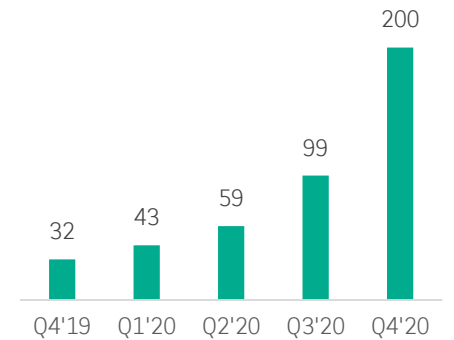


BNPP BP claims evolution



Quarterly figures

BNPP BP provisioning evolution



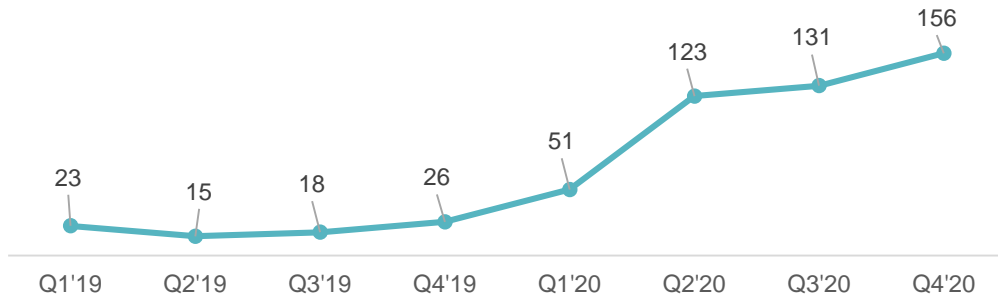
Quarterly figures

DESPITE SOME POSITIVE SIGNALS FOR DENOMINATED LOANS CASES, BNPP BP IS ALSO AFFECTED BY THE TREND

INCREASE IN NEW COURT CASES. JUDGEMENT IN SECOND INSTANCE STILL MORE FAVORABLE FOR THE BANK.

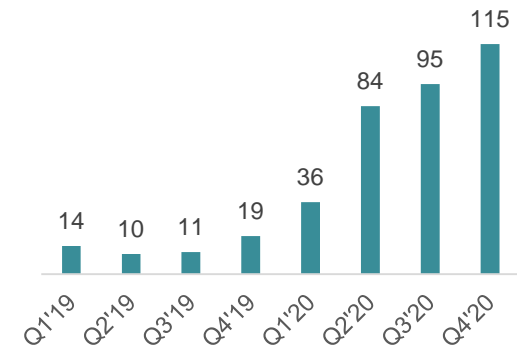
Total new Court cases evolution by quarter

Quarterly figures as from Q1 2019



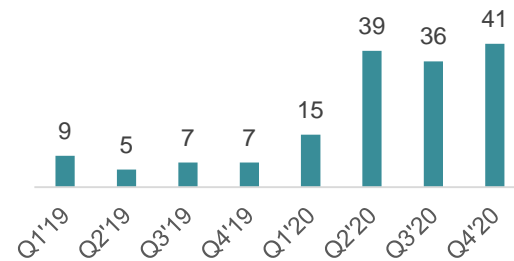
Denominated loans Court Cases evolution

Quarterly figures as from Q12019



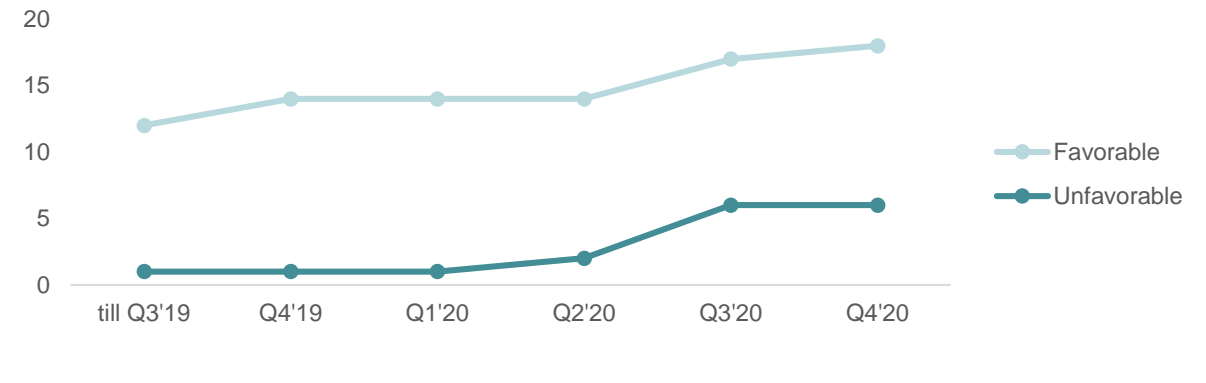
FX loans Court cases evolution

Quarterly figures as from Q12019



Total judgements evolution

Quarterly figures as from end of Q3 2019



- ✓ Ratio of favorable judgments in second instance: 33% for denominated loans and 80% for FX loans (after TSUE)

VOLUNTARY CONVERSION PROGRAM IS BEING ANALYZED BUT NEXT KEY MILESTONE IS SUPREME COURT RESOLUTION

PFSA's Chairman proposal

- In December 2020, the Chairman of the Financial Supervision Authority put out a proposal of voluntary conversion of CHF denominated mortgages loans into PLN loans as CHF mortgages loans is remaining a systemic risk for the banking sector.
- The PFSA's Chairman proposal is to compare CHF mortgages loans with a similar denominated PLN loans based on 3M WIBOR rate increased by a margin used historically for this type of loans and compensate CHF debtors for losses they have incurred relative to PLN borrowers.
- According to our estimates, the potential cost of the conversion program for BNPP Polska would be:
 - PLN 0.7 bn for denominated loans
 - PLN 1.3 bn for the whole portfolio (denominated and FX loans)
- On 9 February 2021, the Management Board of the National Bank of Poland stated that the potential involvement of NBP may be considered in the process of FX loans conversion into zloty by domestic banks, based on market principles and executed in line with market exchange rates, provided that lenders meet certain conditions
- Bank is currently analysis the impact resulting from the voluntary program conversion but has not made any decision on offering the conversion program to the borrowers as additional analysis and clarifications will be needed. More specifically, the impact resulting from the Supreme Court ruling has to be considered. In parallel, the Bank has started conducting a customers survey about the conversion program and performing tests with few of them, additionally prepering the legal analisys about the program and the potential further process

Next key milestone : Supreme Court resolution expected on March 25th

- On 21 January 2021, the First President of the Supreme Court submitted a motion for adopting a resolution answering a set of questions, in particular covering the following topics :
 - ⇒ If the conversion clause is deemed abusive what should be the consequence: (i) the contract can be supplemented with other provisions instead of abusive clause, (ii) the agreement should be binding in the remaining scope without any supplements, or (iii) it will fall and require cancellation ?
 - ⇒ If the contract is ineffective how the court should settle the mutual payments: (i) whether it should consider only the borrower's separate claim regardless of the bank's claim (the so-called theory of two conditions) or should it set off both claims and grant the borrower only the difference between the borrower's claim and the bank's claim (if such a difference exists) or dismiss the claim if the borrower's claim is lower than the bank's claim (so-called balance theory) ?
 - ⇒ How should the limitation period for a bank's claim for capital return be calculated ?
 - ⇒ Is it possible to demand remuneration for the use of funds by the other party in the event of invalidity or ineffectiveness ?
- In the continuity of the Supreme Court's resolution which will be issued on 25 March, 2021, the Bank will analyze the content of the resolution and the potential impacts on the jurisprudence, review the parameters used in the calculation of the legal risk provisioning and assess the opportunity to offer the voluntary program to the borrowers.