

PKO Finance AB (publ)

Annual report for the period 2017-01-01 - 2017-12-31

(CID 556693-7461)

c/o AB 1909 Corporate Services
Norrandsgatan 18 (Head office)
111 43 Stockholm (Domicile)
Sweden (Country of registration)

This document is a translation of a document originally issued in Swedish. The only binding version is the original Swedish version.

MANAGEMENT REPORT

The company is a wholly owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spolka Akcyjna ("PKO Bank Polski SA").
The company is domiciled in Stockholm.

Business

The business of the company is to directly or indirectly own, manage and trade securities and to conduct other non-licensed financial business including lending and other activities compatible therewith.

During 2008 the company has entered into a "Programme for the issuance of Loan Participation Notes". Under the Programme, the company may issue bonds (Loan Participation Notes) in series. The sole purpose of issuing each series is to finance loans to the parent company. The company charges certain rights under the loans to the parent company for the benefit of the note holders.

In accordance with the "Programme for issuance of Loan Participation Notes", four tranches of Participation Notes denominated in CHF and EUR have been issued during 2010- 2012. Additionally a bond loan for the American market was issued during 2012 based on such documentation binding on the debt market in the United States and in accordance with the Rule 144A in the US Securities Act. In January 2014 an additional bond loan has been issued in accordance with the above-mentioned programme which amounts to EUR 500 000 000. This bond loan is due for repayment in 2019.

All notes issued run with fixed interest and have been used to finance loans to the parent company on basically the same terms.

At the reporting date, there are three active tranches: Two in EUR and one in USD (for more information please refer to Notes 5 and 8).

The notes in USD and EUR are quoted on the Luxembourg Stock Exchange (LSE).

The financial year

During the financial year 2017 EUR 5 500 000 has been lent to the group company PKO Leasing Sverige AB. PKO Bank Polski SA has issued a guarantee in order to secure the obligations of PKO Leasing Sverige AB resulting from the loan agreement.
The interest is variable.

The change in total assets compared to 2016 is related to the strengthening of EUR against USD. At the same time equity has increased due to an issue of new shares EUR 5 491 884 which was registered with the Swedish Companies Registration Office on 1 August 2017.

The company has not had any employees.

Multiyear review (KEUR)

	2017	2016	2015	2014
Interest income	55 342	61 330	101 606	95 750
Income before taxes	202	259	577	545
Equity	6 329	717	831	762
Total assets	1 411 761	1 521 213	1 721 350	2 825 007

Risks and uncertainties

Market risk

The loans granted to the parent company and that constitute the main assets of the company are financed by bond loans in the same currencies and with the same interest and repayment terms. The interest rates on the loans granted to the parent company are fixed as are the interest rates on the bond loans. The loans to the parent company are in all cases financed by bond loans in the same currency. All material cash at banks is held in EUR which is the reporting currency of the company.

Liquidity risks

As mentioned above the company's interest payments on the bond loans and the interest payments from the parent company occur simultaneously (actually the interest payments on the loans to the parent company occur shortly before the interest on the bond loans are due for payment). Consequently, the company will always have access to funds in order to finance its interest payments. See also note 5.

Credit and counterparty risk

PKO Bank Polski SA is the company's main borrower. The financial situation of PKO Bank Polski SA is very good (the Moody's long-term rating is A3) for which reason the credit risk of the company is deemed to be low.

Additionally, PKO Bank Polski SA has issued a guarantee in order to secure all obligations of PKO Leasing Sverige AB resulting from the loan agreement with the company.

All material cash at banks is placed in SEB, Sweden.

Currency risk

The functional currency of the company is EUR. Since all material assets and liabilities are denominated in the same currency, the currency risk of the company is insignificant.

Corporate governance report

The Company has established routines in order to secure the accuracy of the financial reports which among other procedures include the audit of the Annual report by the elected auditors.

In view of the limited activities and low number of transactions the Board of Directors considers the control system described above to be appropriate.

Future activities of the company

The future activities of the company are linked to the development of the financial markets and the macroeconomic environment.

Proposal for appropriation of profits

The following profit is to be appropriated by the Annual General Meeting of Shareholders

Retained earnings	EUR	661 989
The profit of the year	EUR	<u>119 692</u>
Total profit of the year and retained earnings	EUR	781 681

The Board of Directors proposes that the profit is appropriated as follows:

To be carried forward

EUR	781 681
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PROFIT AND LOSS STATEMENT

Amounts in euro.	Note 1,2	2017	2016
Administration and commission revenues from the parent company and other group companies		248 716	347 290
Other external expenses	Note 3	-102 298	-99 510
Operating income		146 418	247 780
Financial items			
Interest income		55 342 357	61 329 640
Interest expenses, bond loans		-55 270 687	-61 309 099
Net currency effects		-15 640	-9 168
Income before taxes		202 448	259 153
Appropriation to profit equalisation reserve		-49 853	-64 644
Current tax expense	Note 4	-32 903	-42 665
Net income		119 692	151 844

The comprehensive income of the company equals the net income.

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BALANCE SHEET

Note 1, 2

Amounts in euro

2017-12-31

2016-12-31

Assets*Long-term financial assets*

Loans granted to parent company and other group companies	Note 5, 6	1 387 699 690	1 496 697 584
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Current assets

Loans granted to parent company and other group companies	Note 5, 6	816 000	-
Receivables, parent company		-	792
Income tax receivables		104 694	32 202
Prepaid expenses		13 397	13 521
Accrued income, parent company and other group companies	Note 7	21 921 436	23 332 636
Cash and cash equivalents		<u>1 205 289</u>	<u>1 136 389</u>
<i>Total current assets</i>		24 060 816	24 515 540

Total assets

		1 411 760 506	1 521 213 124
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Liabilities and equity**Equity**

Note 9

Restricted equity

Share capital (500 000 shares 2017-12-31, 5 000 shares 2016-12-31)		5 547 358	55 474
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Unrestricted equity

Retained earnings		661 989	510 145
Net income		<u>119 692</u>	<u>151 844</u>
<i>Total unrestricted equity</i>		781 681	661 989

Total equity

		6 329 039	717 463
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Untaxed reserves

Profit equalisation reserve		495 850	439 810
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Liabilities*Long-term liabilities*

Bond loans	Note 6,8	1 383 067 006	1 496 767 108
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Short-term liabilities

Accounts payable, parent company		837	792
Accounts payable, others		6 250	-
Accrued interest expenses		21 850 057	23 258 374
Other accrued expenses		<u>11 467</u>	<u>29 577</u>
<i>Total short-term liabilities</i>		21 868 611	23 288 743

Total liabilities

		1 404 935 617	1 520 055 851
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Total liabilities and equity

		1 411 760 506	1 521 213 124
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Cash-flow statement

Amounts in EUR	2017	2016
Operating activities		
Interest and other payments from parent company and other group companies	54 846 478	63 516 839
Income taxes	-115 313	-95 514
Interest payments on bond loans	-54 528 365	-63 161 905
Payments to suppliers, remunerations to directors	-108 039	-92 952
Other interest income	-13 811	-
Loan to group company	-5 500 000	-
Repayment of loans from parent company	-	230 982 500
Cash flow from operating activities	-5 419 050	231 148 968
Financing activities		
Issue of new shares	5 491 884	-
Dividend	-	-265 545
Repayment of bond loans	-	-230 982 500
Cash flow from financing activities	5 491 884	-231 248 045
Cash flow of the period	72 834	-99 077
Opening cash balance	1 136 389	1 241 674
Currency difference in cash balance	-3 934	-6 208
Closing cash balance	1 205 289	1 136 389

REPORT ON CHANGES IN EQUITY

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net income</i>	<i>Total equity</i>
Amount 2016-01-01	55 474	443 759	331 931	831 164
Retained earnings		331 931	-331 931	0
Dividend (EUR 53,11 per share)		-265 545		-265 545
Net income			151 844	151 844
Amount 2016-12-31	55 474	510 145	151 844	717 463
Amount 2017-01-01	55 474	510 145	151 844	717 463
Retained earnings		151 844	-151 844	0
Issue of new shares	5 491 884	0		5 491 884
Net income			119 692	119 692
Amount 2017-12-31	5 547 358	661 989	119 692	6 329 039

The shares have no nominal values and are fully paid. In 2017 the share capital of the Company has been increased with EUR 5 491 884 by issuance of 495 000 new shares. The increase in the share capital was registered with the Swedish Companies Registration Office (Bolagsverket) on 1 August 2017. As a result of the issue of new shares in 2017 the number of shares increased from 5 000 at 31 December 2016 to 500 000 as at 31 December 2017.

NOTES

Note 1 Basis for the preparation of the report

The annual report is prepared in accordance with the Annual Accounts Act and recommendation number 2 from the Financial Reporting Council (RFR 2); Reporting for legal entities. RFR 2 obligates the company to apply International Financial Reporting Standards (IFRS) as adopted by the European Union, to the extent this is possible within the framework of the Annual Accounts Act and taking into account the connection between accounting and taxation. The recommendation indicates exceptions and additions that are needed in relation to IFRS.

The Annual report is based on the assumption of going concern during a foreseeable future.

The functional currency is EUR which also is the reporting currency.

Note 2 Important accounting principles.

None of the standards, changes and interpretations that entered into force after January 1, 2017 have had any material impact on the financial reports. None of the IFRS or IFRIC-interpretations that have not yet entered into force are expected to have any material impact on the company.

The company is recognised as one business segment.

Foreign currency

Transactions in other currencies than EUR have been valued at the exchange rate which prevailed on the day of transaction. As at the reporting date all assets and liabilities denominated in other currencies than EUR have been valued using the exchange rate prevailing on the reporting date according to Oanda.

The following rates have been used :

	2017-12-31	2016-12-31
	EUR	EUR
1 SEK =	0,10158	0,1044
1 CHF =	0,85497	0,93115
1 PLN =	0,23926	0,2264
1 USD =	0,8347	0,94901

Reporting of revenues and expenses

Interest income and expenses are reported in accordance with the effective interest method.

Other revenues are reported at the time of earning and to the extent it is probable that the future economic benefits will be made available to the company and that the revenues can be estimated in a reliable way.

Valuation of assets and liabilities

Assets and liabilities are reported at acquisition cost and nominal value respectively if nothing else is stated.

The loans granted to group companies and the bond loans have been reported in accordance with the effective interest method which means that the difference between discounted (recorded) value and the nominal values of the loan and the bond loan are amortized over the term of the respective loans. These amortizations are included in reported interest income/expenses which for this reason reflect the effective interest of the respective loans.

In those cases when it can be expected that the impairment exists, the value of the asset is decreased by an relevant amount of an impairment allowance.

Income tax

Reported income taxes include taxes that are to be paid or received relating to the reported period and adjustments regarding earlier periods. Tax-liabilities/receivables are valued at the amounts, that, in the opinion of the company are expected to be paid to or received from the tax office. Taxable income can differ from income before taxes as reported in the profit and loss statement as this income excludes revenues and expenses that are taxable or deductible in other periods and it also excludes revenues and expenses that permanently are non-taxable or deductible.

In accordance with RFR2 no deferred tax liability relating to the company's untaxed reserves is reported.

Share capital

Reported share capital corresponds to registered nominal value.

Estimation of fair value

Fair value of the loans granted to the parent company and of the bond loans have been calculated based on listed value on the Luxembourg stock exchange according to Bloomberg as at the reporting date.

As for the loan granted to another group company than the parent company it is the opinion of the company that reported value constitute the best possible estimate of fair value, considering that the loan was granted shortly before the balance sheet date on arms-lengths terms.

For other financial assets and liabilities it is the opinion of the company that the reported values constitute the best possible estimate of fair value, since these assets and liabilities are short-term and have high liquidity.

Estimations and assumptions

In preparing the report the company has made estimates and assumptions. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and recognized prospectively.

No estimations and assumptions which could result in material adjustments in reported values in the next reporting period was made during 2017.

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Note 3 Other external expenses

	<u>2017</u>	<u>2016</u>
Audit fees KPMG	9 142	11 070
Remunerations to directors	20 068	17 970
Expenses, group companies	9 888	9 593
Administration fees	32 185	48 696
Other external fees	27 187	8 502
Bank fees	<u>3 828</u>	<u>3 679</u>
<i>Total other external expenses</i>	102 298	99 510

The remuneration paid to the Board of Directors in 2017 amounted to 18 757 and in 2016 to 16 992. As in 2016 there are two males and one female in the Board of Directors.

Note 4 Reconciliation of effective tax

	2017	2017	2016	2016
	(%)		(%)	
Income before tax but after appropriations		152 595		194 509
Tax according to current tax rate	22,00%	33 571	22,00%	42 792
Non-deductible expenses				0
Non-taxable income		-40		0
Flat-rate interest on profit equalisation reserve		332		380
Tax relating to earlier years				-507
Currency effects		-960		-507
Reported effective tax	21,56%	32 903	21,93%	42 665

Note 5 Loans granted to parent company and other group companies

<i>Issued</i>	<i>To be repaid</i>	2017-12-31	2016-12-31	2017-12-31	2016-12-31
		<i>Currency of denomination</i>		<i>Reporting currency</i>	
2012-07-25	2022-07-25	€ 49 484 534	€ 49 371 534	49 484 534	49 371 534
2012-09-26	2022-09-26	\$998 817 123	\$998 567 123	833 674 215	947 604 035
2014-01-23	2019-01-23	€ 499 856 941	€ 499 722 015	499 856 941	499 722 015
2017-12-28	till 2023-12-25	€ 5 500 000	-	<u>5 500 000</u>	-
Total				1 388 515 690	1 496 697 584

Note 6 Financial assets and liabilities - information according to IFRS 7

Information on fair values

	2017-12-31		2016-12-31	
	Reported value	Fair value	Reported value	Fair value
Loans to parent company incl. accrued interest income	1 404 915 100	1 477 079 427	1 519 955 958	1 575 221 550
Loan to group companies	5 500 382	5 500 382	-	-
Accrued administrative fee, parent company	21 644	21 644	74 262	74 262
Cash and cash equivalents	1 205 289	1 205 289	1 136 389	1 136 389
Bond loans incl. accrued interest expenses	1 404 917 063	1 477 030 061	1 520 025 482	1 575 221 550

Book values are reasonable approximations of fair values in the cases where no fair values are reported for financial instruments above since their terms are short. The information above that relates to Loans to the parent company and Bond Loans belongs to level 1 in the fair-value hierarchy and have been valued to the latest market value noted on the Luxembourg stock exchange. The Loans to the Parent company are valued at the same value since the parent company loans are pledged as security for the bond loans. The market value of the loan to PKO Leasing Sverige AB is estimated to the book value.

Structure of maturity for financial debts

	Book value	Maturities up to	Maturities between	Maturities over
	2017-12-31	one year	one and five years	five years
Loans to the parent company and other group companies	1 388 515 690	816 000	1 386 279 690	1 420 000
Bond loans	1 383 067 006	-	1 383 067 006	-

	Book value	Maturities up to	Maturities between	Maturities over
	2016-12-31	one year	one and five years	five years
Loans to the parent company	1 496 697 584	0	499 722 015	996 975 569
Bond loans	1 496 767 108	0	499 742 607	997 024 501

The amounts relate to contractual non-discounted payments.

For other information concerning risks in financial instruments please refer to the Management report under "Risks and Uncertainties".

Note 7 Accrued income, parent company and other group companies

	2017-12-31	2016-12-31
Accrued interest income	21 899 792	23 258 374
Accrued administrative fee income	21 644	74 262
<i>Total accrued income, parent company and other group companies:</i>	21 921 436	23 332 636

Note 8 Bond loans

Issued	Due for repayment	2017-12-31	2016-12-31	2017-12-31	2016-12-31
		Currency of denomination		Reporting currency (EUR)	
2012-07-25	2022-07-25	€ 49 486 815	€ 49 374 315	49 486 815	49 374 315
2012-09-26	2022-09-26	\$998 771 073	\$998 567 123	833 712 653	947 650 186
2014-01-23	2019-01-23	€ 499 867 538	€ 499 742 607	<u>499 867 538</u>	<u>499 742 607</u>
Total				1 383 067 006	1 496 767 108

Note 9 Parent company

The company is a wholly-owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spółka Akcyjna, Warsaw, Poland with corporate identity number 525-000-77-38.

Note 10 Related party transactions

	<u>2017</u>	<u>2016</u>
<i>Cash flow items</i>		
Interest and other payments from parent company and other group companies	54 846 478	63 516 839
Loan to group company	-5 500 000	-
Repayment of loans, parent company	-	230 982 500
Issue of new shares	5 491 884	-
Dividend	-	-265 545
<i>Balance sheet items</i>		
Receivables, parent company	-	792
Accounts payable, parent company	837	792
Loans, parent company and other group companies	1 388 515 690	1 496 697 584
Accrued income, parent company and other group companies	21 921 436	23 332 636
<i>Profit-and loss items</i>		
Interest income, parent company and other group companies	55 356 805	61 329 640
Administration and commission revenues the parent company and other group companies	248 716	347 290
Remunerations to parent company	9 888	9 593

Note 11 Proposal for appropriation of profits

The following profit is to be appropriated by the Annual General Meeting of Shareholders		<u>2017</u>	<u>2016</u>
Retained earnings	EUR	661 989	510 145
The profit of the year	EUR	<u>119 692</u>	<u>151 844</u>
Total profit of the year and retained earnings	EUR	781 681	661 989

The Board of Directors proposes that the profit is appropriated as follows:

Distributed as dividend to the share holder	EUR	-	-
To be carried forward	EUR	<u>781 681</u>	<u>661 989</u>
	EUR	781 681	661 989

Note 12 Pledged assets and contingent liabilities

		<u>2017-12-31</u>	<u>2016-12-31</u>
Pledged assets			
Loan parent company	EUR	1 404 050 145	1 519 955 958
Contingent liabilities			
Other	EUR	55 310 610	47 930 816

Contingent liabilities

In the beginning of 2018 it was discovered that a strict application of current income tax rules for companies with EUR as their reporting currency, possibly could have the effect that the fluctuations of the exchange rates SEK/EUR during the period between the disbursements and repayments of the intergroup loans are differently taxed than if the same loans had been made by a company with SEK as reporting currency. In the opinion of the company such different tax treatment is however not probable since it probably would be in violation with the purpose of the Swedish income tax legislation and possibly also applicable EU-legislation. A tax ruling is expected.

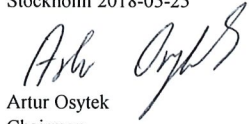
The reported value represents potential tax on currency effects of repayments of loans. The capital gain has been calculated based on the exchange rate at the reporting date or at the repayment date compared to the currency rate at the date of the loan disbursement. The loans have been made to the parent company.

Taking into account that a potential future tax effect depends on the development of exchange rates information of the exposures have been reported as contingent liabilities based on the fact that it is unlikely that the tax effect will be realized. The parent company has issued a Guarantee for share capital cover to the company.

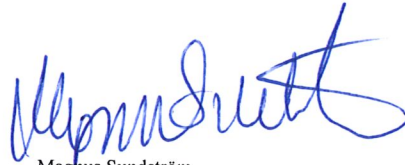
Note 13 Events subsequent to the end of the financial year

There have been no significant events.

Stockholm 2018-05-25



Artur Osytek
Chairman



Magnus Sundström
Managing Director



Iwona Jankowska
Board Member

Our audit report was issued 2018-06-07
KPMG AB



Tobias Palmgren
Authorized auditor