

**PKO Finance AB (publ)**

**Annual report for the period 2015-01-01 - 2015-12-31**

(CID 556693-7461)

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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").  
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 the issuance of Loan Participation Notes, four tranches of Participaton 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 Securites Act. In January 2014 an additional loan has been issued in accordance with the above-mentioned programme which amounts to EUR 500 000 000. This 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.

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

### *The financial year*

In October and December respectively the loans of MEUR 800 and MCHF 500 were repaid by the parent company and the proceeds were used to repay the bond loans with the same amounts.

The change in total assets compared to 2014 is related to the repayment of the loans as mentioned above. The change in interest income has been affected by the abovementioned repayments but also by the strengthening of the USD and CHF against EUR.

The company has not had any employees.

### *Multiyear review (KEUR)*

	2015	2014	2013	2012
Interest income	101 606	95 750	85 714	50 856
Income before taxes	577	545	424	314
Equity	831	762	687	434
Total assets	1 721 350	2 825 007	2 204 490	2 242 933

## *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 are 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 only 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.

Cash and cash equivalents of the company are located in SEB, Sweden.

### Currency risk

Functional currency of the company is EUR.

As all material assets and liabilities are denominated in the same currency, the currency risk doesn't occur.

### *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.

### *Events subsequent to the end of the year of reporting*

No material events have occurred after the end of the reporting year.

### **Proposal for appropriation of profits**

The following profit is to be appropriated by the annual general meeting of shareholders

Retained earnings	EUR	443 759
The profit of the year	EUR	<u>331 931</u>
Total profit of the year and retained earnings	EUR	775 690

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

To be distributed as dividend	EUR	265 545
To be carried forward	EUR	<u>510 145</u>
		775 690

The Board of Directors finds the proposed dividend well balanced considering the company's business objectives, volume, risks and ability to meet future obligations following payment of the dividend the company will continue to have acceptable liquidity and equity capitalization. The proposed dividend can therefore be justified in relation to the requirements set out in the Companies Act Ch 17 3§ 2-3 paragraphs (prudence principle).

## PROFIT AND LOSS STATEMENT

Amounts in euro.	Note 1,2	2015	2014
Administration and commission revenues from the parent company		529 192	584 077
Other external expenses	Note 3	-119 419	-105 003
<b>Operating income</b>		<b>409 773</b>	<b>479 074</b>
<b>Financial items</b>			
Interest income, loans to parent company		101 606 101	95 750 212
Interest expenses, bond loans etc.		-101 439 113	-95 649 421
Net currency effects		559	-34 476
<b>Income before taxes</b>		<b>577 320</b>	<b>545 389</b>
Appropriation to profit equalisation reserve		-147 825	-130 614
Current tax expense	Note 4	-97 564	-86 204
<b>Net income</b>		<b>331 931</b>	<b>328 571</b>

The comprehensive income of the company equals the net income.

**BALANCE SHEET**

Note 1, 2

Amounts in euro		2015-12-31	2014-12-31
<b>Assets</b>			
<i>Long-term financial assets</i>			
Loans granted to parent company	Note 5, 6	1 462 410 331	1 577 218 688
<i>Current assets</i>			
Loans granted to parent company	Note 5, 6	230 783 432	1 215 101 100
Receivables, parent company		825	1 626
Prepaid expenses		14 045	13 190
Accrued income, parent company	Note 7	26 899 241	31 492 672
Cash and cash equivalents		<u>1 241 674</u>	<u>1 179 282</u>
<i>Total current assets</i>		258 939 217	1 247 787 870
<b>Total assets</b>		<b>1 721 349 548</b>	<b>2 825 006 558</b>
<b>Liabilities and equity</b>			
<b>Equity</b>			
Note 9			
<i>Restricted equity</i>			
Share capital (5 000 shares)		55 474	55 474
<i>Unrestricted equity</i>			
Retained earnings		443 759	378 045
Net income		<u>331 931</u>	<u>328 571</u>
<i>Total unrestricted equity</i>		775 690	706 616
<b>Total equity</b>		<b>831 164</b>	<b>762 090</b>
<b>Untaxed reserves</b>			
Profit equalisation reserve		<b>375 168</b>	<b>227 343</b>
<b>Liabilities</b>			
<i>Long-term liabilities</i>			
Bond loans	Note 6,8	1 462 498 112	1 576 756 638
<i>Short-term liabilities</i>			
Bond loans		230 785 797	1 215 722 211
Accounts payable, parent company		1 649	0
Accounts payable, others		4 300	0
Current income tax liability		14 866	90 808
Accrued interest expenses		26 814 812	31 431 716
Other short-term liabilities		0	0
Other accrued expenses		<u>23 680</u>	<u>15 752</u>
<i>Total short-term liabilities</i>		257 645 104	1 247 260 487
<b>Total liabilities</b>		<b>1 720 143 216</b>	<b>2 824 017 125</b>
<b>Total liabilities and equity</b>		<b>1 721 349 548</b>	<b>2 825 006 558</b>
<b>Pledged assets</b>			
Loans granted to parent company		1 720 008 575	2 823 751 504
<b>Commitments</b>			
		None	None

**Cash-flow statement**

Amounts in EUR	2015	2014
<b>Operating activities</b>		
Interest and other payments from parent company	106 095 390	85 152 456
Income taxes	-180 715	-147 700
Interest payments on bond loans	-105 493 628	-84 568 814
Payments to suppliers	-98 716	-112 366
Loan to parent company	-	-500 000 000
Repayment of loans from parent company	<u>1 215 660 000</u>	<u>-</u>
<b>Cash flow from operating activities</b>	<b>1 215 982 331</b>	<b>-499 676 424</b>
<b>Investing activities</b>	0	0
<b>Financing activities</b>		
Issue of bonds	-	500 000 000
Dividend	-262 857	-254 867
Repayment of bond loans	<u>-1 215 660 000</u>	<u>-</u>
<b>Cash flow from financing activities</b>	<b>-1 215 922 857</b>	<b>499 745 133</b>
<b>Cash flow of the period</b>	<b>59 474</b>	<b>68 709</b>
Opening cash balance	1 179 282	1 152 518
Currency difference in cash balance	<u>2 918</u>	<u>-41 945</u>
<b>Closing cash balance</b>	<b>1 241 674</b>	<b>1 179 282</b>

**REPORT ON CHANGES IN EQUITY**

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net income</i>	<i>Total equity</i>
Amount 2014-01-01	55 474	378 045	253 512	687 031
Retained earnings		253 512	-253 512	0
Dividend (EUR 50,70 per share)		-253 512		-253 512
Net income			328 571	328 571
Amount 2014-12-31	55 474	378 045	328 571	762 090
Amount 2015-01-01	55 474	378 045	328 571	762 090
Retained earnings		328 571	-328 571	0
Dividend (EUR 53,57 per share)		-262 857		-262 857
Net income			331 931	331 931
Amount 2015-12-31	55 474	443 759	331 931	831 164

The shares have no nominal values and are fully paid. The number of shares (5 000) is unchanged since 2014-01-01.

## 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, 2015 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. All assets and liabilities denominated in other currencies than EUR have, as at the reporting date, been valued using the exchange rate prevailing on the reporting date according to Oanda.

The following rates have been used :

	2015-12-31	2014-12-31
	EUR	EUR
1 SEK =	0,10904	0,10527
1 CHF =	0,92346	0,83132
1 PLN =	0,23558	0,23224
1 USD =	0,91516	0,82262

#### *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 the parent company 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 parent company 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 and Zurich stock exchanges according to Bloomberg as at the reporting date.

For other 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 2015.



**Note 3 Other external expenses**

	2015	2014
Audit fees KPMG/PWC	17 068	7 440
Remunerations to directors	17 441	14 919
Expenses, group companies	16 681	18 378
Administration fees	49 110	57 673
Other external fees	12 066	4 885
Bank fees	<u>7 053</u>	<u>1 708</u>
<i>Total other external expenses</i>	119 419	105 003

The Board of Directors receives remuneration in accordance with resolutions at the Annual General Meeting.

The remuneration paid to the Board of Directors in 2015 amounted to 17 103 and in 2014 to 14 230.

As in 2014 there are two males and one female in the Board of Directors.

**Note 4 Reconciliation of effective tax**

	2015	2015	2014	2014
	(%)		(%)	
Income before tax but after appropriations		429 495		414 775
Tax according to current tax rate	22,00%	94 489	22,00%	91 251
Non-deductible expenses		435		148
Non-taxable income		-4		-744
Flat-rate interest on profit equalisation reserve		336		333
Tax relating to earlier years				49
Currency effects		2 308		-4 833
Reported effective tax	22,72%	97 564	20,78%	86 204

**Note 5 Loans granted to parent company**

<i>Issued</i>	<i>To be repaid</i>	2015-12-31	2014-12-31	2015-12-31	2014-12-31
		<i>Denomination currency</i>		<i>Reporting currency</i>	
2010-10-21	2015-10-21	-	€ 799 826 703	-	799 826 703
2011-07-07	2016-07-07	249 911 672 CHF	249 739 266 CHF	230 783 432	207 613 247
2012-07-25	2022-07-25	€ 49 258 225	€ 49 145 225	49 258 225	49 145 225
2012-09-21	2015-12-21	-	499 536 156 CHF	-	415 274 397
2012-09-26	2022-09-26	\$998 257 558	\$997 991 557	913 565 386	820 967 815
2014-01-23	2019-01-23	€ 499 586 720	€ 499 492 401	<u>499 586 720</u>	<u>499 492 401</u>
Total				1 693 193 763	2 792 319 788

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

*Information on fair values*

	2015-12-31	2015-12-31	2014-12-31	2014-12-31
	Reported value	Fair value	Reported value	Fair value
Loans granted to parent company	1 720 008 575	1 784 607 710	2 823 751 504	2 895 592 443
Accrued administrative fee, parent company	84 428	84 428	60 956	60 956
Cash and cash equivalents	1 241 674	1 241 674	1 179 281	1 179 281
Bond loans	1 720 098 721	1 784 607 710	2 823 910 565	2 895 592 443

Book values are reasonable approximations of fair values in the cases where no real values are reported for financial instruments above since their terms are short. The information above that relates to Loans 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 and Zurich stock exchanges. The Loans are valued at the same value since the parent company loans are pledged as security for the bond loans.

*Structure of maturity for financial debts*

	Book value 2015-12-31	Maturities up to one year	Maturities between one and five years	Maturities over five years
Loans to the parent company	1 693 193 763	230 783 432	499 586 720	962 823 611
Bond loans	1 693 283 909	230 785 797	499 617 333	962 880 779

	Book value 2014-12-31	Maturities up to one year	Maturities between one and five years	Maturities over five years
Loan to the parent company	2 792 319 788	1 215 101 100	707 105 648	870 113 040
Bond loans	2 792 478 849	1 215 188 498	707 111 930	870 178 421

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**

	2015-12-31	2014-12-31
Accrued interest income	26 814 812	31 431 716
Accrued administrative fee income	<u>84 429</u>	<u>60 956</u>
<i>Total accrued income, parent company</i>	26 899 241	31 492 672

**Note 8 Bond loans**

<i>Issued</i>	<i>Due for repayment</i>	2015-12-31	2014-12-31	2015-12-31	2014-12-31
		<i>Currency of denomination</i>		<i>Reporting currency (EUR)</i>	
2010-10-21	2015-10-21	-	€ 799 839 540	-	799 839 540
2011-07-07	2016-07-07	249 914 392 CHF	249 746 824 CHF	230 785 797	207 619 529
2012-07-25	2022-07-25	€ 49 261 507	€ 49 149 007	49 261 507	49 149 007
2012-09-21	2015-12-21	-	499 625 843 CHF	-	415 348 958
2012-09-26	2022-09-26	\$998 316 438	\$998 066 438	913 619 272	821 029 414
2014-01-23	2019-01-23	€ 499 617 333	€ 499 492 401	<u>499 617 333</u>	<u>499 492 401</u>
Total				1 693 283 909	2 792 478 849

**Note 9 Parent company**

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

**Note 10 Related party transactions**

	2015	2014
<i>Cash flow items</i>		
Interest and other payments from parent company	106 095 390	85 152 456
Loan to parent company	-	-500 000 000
Repayment of loans, parent company	1 215 660 000	-
Dividend	-262 857	-254 867
<i>Balance sheet items</i>		
Loans, parent company	1 693 193 763	2 792 319 788
Accrued income, parent company	26 899 241	31 492 672
<i>Profit and loss items</i>		
Interest income, parent company	101 606 101	95 750 212
Administration and commission revenues the parent company	529 192	584 077
Remunerations to other group companies	16 681	18 378

Stockholm 2016-02-19

Artur Osytek  
Chairman

Magnus Sundström  
Managing Director

Iwona Jankowska

Our audit report was issued 2016-02-25  
KPMG AB

Tobias Palmgren  
Authorized auditor