

**PKO Finance AB (publ)**

**Annual report**

**for the period 1 January 2013 -- 31 December 2013**

(Corporate Identity Number 556693-7461)

## **ADMINISTRATION REPORT**

The Company is a wholly owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spółka Akcyjna ("PKO Bank").  
The Company has no employees.

### *Operations*

The Company's operations consist of the direct or indirect ownership and administration of securities and other financial activities that do not require a permit, including the granting of loans and other associated activities.

### *The financial year*

During 2008, the Company entered into a "Programme for the Issuance of Loan Participating Notes (the "Programme"). Under the Programme, the Company may issue bonds ("loan participation notes") in various series. The sole purpose of issuing each series will be to finance loans to the Parent Company. Under the terms and conditions of the Programme, the Company will pledge certain rights under the loans to the Parent Company for the benefit of the note holders.

In accordance with the Programme, four tranches of Participaton Notes denominated in CHF and EUR were issued during the period 2010-2012. In addition, a bond loan for the American market was issued during 2012 based on such documentation binding on the debt market in the United States in accordance with the Rule 144A of the US Securites Act.

No bonds have been issued during 2013.

The loan participation notes incur fixed interest and have been used to finance loans to the Parent Company on, in principle, similar 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).

### *Corporate governance report*

The Company has established routines in order to ensure the accuracy of the financial reports. These routines include the audit of the annual report by auditors elected by the Annual General Meeting.

In view of the Company's limited operations and low number of transactions, the Board of Directors considers the control system for the financial reports, as described above, to be satisfactory.

### *Expected future development*

The future activities of the company are linked to the development of the financial markets and the macroeconomic environment. In accordance with the aforementioned programme, a new loan amounting to EUR 500,000,000 has been issued during January 2014. This loan incurs fixed interest and falls due for repayment in 2019. The loan has been used to finance loans to the Parent Company on, in principle, similar terms.

## Proposed appropriation of profits

The following profits are at the disposal of the Annual General Meeting

Retained earnings	EUR	378 045
Net profit for the year	EUR	<u>253 512</u>
		631 557

The Board of Directors proposes that profits brought forward be appropriated as follows:

To be distributed as dividend	EUR	253 512
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The Board of Directors deems the proposed dividend to be proportionate in light of the Company's business objectives, volume and risks, and is of the opinion that the proposed dividend will not prevent the Company from fulfilling its future obligations. Following payment of the dividend, the liquidity and equity/assets ratio in the Company will continue to be satisfactory. The proposed dividend can thereby be justified with reference to the provisions of the Swedish Companies Act, 17:3, paragraphs 2-3.

For further information regarding the Company's financial position and results of operations, refer to the following income statement and balance sheet, with accompanying notes.

**INCOME STATEMENT**

Note 1

Amounts in EUR		2013	2012
Administration fee from Parent Company		446 985	354 645
Other external expenses	Note 3	-102 497	-80 800
<b>Profit before financial items</b>		<b>344 489</b>	<b>273 845</b>
Interest income on long term loans to Parent Company		85 713 568	50 856 140
Interest expenses, LPN loans		-85 610 503	-50 813 218
Exchange losses		-23 201	-2 297
<b>Profit before tax</b>		<b>424 353</b>	<b>314 470</b>
Transfer to tax allocation reserve		-102 916	-
Tax on profit for the year		-67 925	-82 706
<b>Net profit for the year</b>		<b>253 512</b>	<b>231 764</b>

**BALANCE SHEET**

Note 1

Amounts in EUR

31 Dec 201331 Dec 2012**Assets***Financial fixed assets*

Loans to Parent Company

Note 2

2 183 995 996

2 222 259 931

*Current assets*

Receivable from Parent Company

843

858

Prepaid expenses

14 439

14 996

Accrued income, Parent Company

19 326 014

19 791 390

Bank funds

1 152 518866 197

Total current assets

20 493 814

20 673 441

**Total assets****2 204 489 811**

805 055 803

**2 242 933 372**

<b>Equity</b>	Note 5,6	31 Dec 2013	31 Dec 2012
<i>Restricted equity</i>			
Share capital (5,000 shares with quotient value SEK 100)		55 474	55 474
<i>Non-restricted equity</i>			
Retained earnings		378 045	146 281
Net profit for the year		<u>253 512</u>	<u>231 764</u>
Total non-restricted equity		631 557	378 045
<b>Total equity</b>		<b>687 031</b>	<b>433 519</b>
<b>Untaxed reserves</b>			
Tax allocation reserve		<b>102 916</b>	-
<i>Non-current liabilities</i>			
LPN loans	Note 4	2 184 255 567	2 222 621 480
<i>Current liabilities</i>			
Accounts payable, Parent Company		843	858
Accounts payable, others		4 087	-
Current tax liabilities		148 418	118 321
Accrued interest expenses		19 267 994	19 732 258
Other current liabilities		2 449	-
Other accrued expenses		<u>20 505</u>	<u>26 936</u>
Total current liabilities		19 444 297	19 878 373
<b>Total liabilities</b>		<b>2 203 699 864</b>	<b>2 242 499 853</b>
<b>Total liabilities and equity</b>		<b>2 204 489 811</b>	<b>2 242 933 372</b>
<b>Pledged assets</b>			
Loan to Parent Company		2 203 263 992	2 241 992 189
<b>Contingent liabilities</b>		-	-

## CASH FLOW STATEMENT

Amounts in EUR

	2013	2012
<b>Operating activities</b>		
Interest and other payments from Parent Company	84 815 072	44 683 079
Tax	-35 805	-2 645
Interest payments on Eurobond loan	-84 353 808	-44 062 925
Payments to suppliers	-105 059	-72 683
<b>Cash flow from operating activities</b>	<b>320 400</b>	<b>544 826</b>
<b>Investing activities</b>		
Loan to Parent Company	0	-1 236 695 000
<b>Financing activities</b>		
Raising of LPN loan	0	1 236 695 000
<b>Cash flow for the period</b>	<b>320 400</b>	<b>544 826</b>
Opening cash balance	866 197	321 186
Exchange gains/losses on cash and cash equivalents	-34 079	185
<b>Cash and cash equivalents at the end of the period</b>	<b>1 152 518</b>	<b>866 197</b>

## Note 1 Accounting and valuation principles

The annual report has been prepared in accordance with the Swedish Annual Accounts Act and the general advice and guidelines of the Swedish Accounting Standards Board, with the exception of BFNAR 2008:1. The Company's reporting currency is the euro.

Assets and liabilities have been reported at acquisition cost and nominal value, respectively, unless stated otherwise.

Income is recognised when earned and to the extent to which it is probable that the future economic benefits will accrue to the Company and when the income can be reliably estimated.

Reported income tax includes tax, which is to be paid or received, regarding the current year and adjustments regarding previous years' current tax. Tax assets/liabilities are valued at the amounts which the Company expects to be received from/paid to the Tax Agency.

The loans receivable from the Parent Company and LPN loans have been valued using the effective interest method. This means that the difference between discounted value (book value) and nominal value is amortised over the term of the loan and bond loan, respectively. These amortisations are included in the reported interest income/interest expenses which, thus, reflect the respective loans' effective interest.

Receivables and liabilities in foreign currencies have been valued at the closing rate of exchange. The following rates have been applied:

1 SEK =	0,11199
1 CHF =	0,81573
1 PLN =	0,24090
1 USD =	0,72633

## Note 2 Loans to Parent Company

<i>Loan</i>	<i>Granted</i>	<i>Due</i>
€ 800 000 000	2010-10-21	2015-10-21
CHF 250 000 000	2011-07-07	2016-07-07
€ 50 000 000	2012-07-25	2022-07-25
CHF 500 000 000	2012-09-21	2015-12-21
USD 1 000 000 000	2012-09-26	2022-09-26

## Note 3 Other external expenses

Other external expenses includes audit fees payable to PwC amounting to € 14,774 (€12,767 in 2012).

## Note 4 LPN loans

<i>Series</i>	<i>Issued</i>	<i>Due</i>
€ 800 000 000	2010-10-21	2015-10-21
CHF 250 000 000	2011-07-07	2016-07-07
€ 50 000 000	2012-07-25	2022-07-25
CHF 500 000 000	2012-09-21	2015-12-21
USD 1 000 000 000	2012-09-26	2022-09-26

**Note 5 Equity**

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net profit for the year</i>	<i>Total equity</i>
Opening balance	55 474	146 281	231 764	433 519
Retained earnings		231 764	-231 764	0
Net profit for the year	-		253 512	253 512
Total	55 474	378 045	253 512	687 031

**Note 6 Parent Company of the Group**

The Company is a wholly-owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spółka Akcyjna ("PKO Bank"), Warsaw, Poland. Corporate Identity Number 525 000-77-38.

Stockholm, 21-02-2014

Artur Osytek  
Chairman

Magnus Sundström  
Managing Director

Iwona Jankowska

Our audit report was presented on 26-02-2014.  
Öhrlings PricewaterhouseCoopers AB

Susanne Sundvall  
Authorised Public Accountant