

PKO Finance AB (publ)

Annual report for the period 2022-01-01 - 2022-12-31

(CID 556693-7461)

c/o Corporate Services i Fillingen AB
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Sweden (Country of registration)
Domicile: Stockholm

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 charged 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 were 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 was issued in accordance with the above-mentioned programme which amounts to EUR 500 000 000. This bond repayment date was January 23, 2019.

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

In December 2017 EUR 5 500 000 was lent to the group company PKO Leasing Sverige AB, with the maturity date till December 2023. The interest is variable.

During the last part of 2021 the tax office resolved to make a re-assessment of the 2019 taxation also relating to capital gains tax on currency gains and thereby charged income tax to the company relating to this year. This tax has been paid in the beginning of 2022. The company has appealed the tax office resolution. See also notes 4 and 13 with further information on the tax situation of the company.

The financial year

During 2022 the company has repaid bondloans of MUS\$ 1 000 and MEUR 50 respectively following re-payment of the corresponding loans of the same amounts from the parent company. For prudence reasons the company has set up provisions for the income tax which relates to the currency gains that have materialized upon repayment of the loans to the parent company and which might be levied by the tax office.

The financial position, income and cash flow have not in any material way been affected of the COVID-19 pandemic.
The company has not had any employees.

Multi-year review (KEUR)

	2022	2021	2020	2019
Interest income	33 809	41 546	43 137	53 492
Income before taxes	-3 137	119	890	132
Equity	12 616	25 006	11 270	6 386
Total assets	52 289	1 016 918	947 965	1 451 708

Risks and uncertainties

Market risk

There is one remaining loan to a sister-company. In addition the company has a receivable on the parent company regarding unpaid shareholders contribution. The company no longer has external loans.

All material cash at banks is held in EUR which is the reporting currency of the company.

Liquidity risks

The company, which has been noted above, has an option to demand payment of the shareholders contribution which has been obtained from the parent company. This means that there is full coverage to repay the tax liabilities that could become due for payment. There is no other liquidity exposure.

Credit and counterparty risk

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. The financial position of PKO Bank Polski SA is very good (long-term rating by Moody's is A3).

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

Principles for corporate governance

The Company is headed by the Board of Directors and the Managing Director whom exercise their duties as set out according to the Articles of Association, the Instruction for the Managing Director, Rules of Procedures for the Board of Directors and the Company's Act.

Important elements of control and risk-management related to financial reporting

The Company has established routines in order to secure the accuracy of the financial reports which among other procedures include the preparation of quarterly financial reports that -in addition to review by the Board of Directors - also are reviewed by representatives of the parent company.

Parent Company

Details regarding the parent Company, that owns all shares are shown in note 9.

General meetings of Shareholders

The owners decision making rights are exercised at the General Meeting of Shareholders in accordance with law and Articles of Association.

Board of Directors

The Board of Directors work in accordance with law, Articles of Association and based on Rules of Procedure established by the General Meeting of Shareholders.

The Board of Directors makes all decisions which it has the right to make and has not established any committees.

In view of the limited activities and low number of transactions the Board of Directors considers the control system described above to be appropriate for which reason Swedish code for Corporate Governance has not been applies.

Future activities of the company

The future activities of the company are linked to the development of the financial markets and the macroeconomic environment. The future activities will also be affected by the final outcome of the tax issue described in note 13.

The company does not anticipate that the activities of 2023 will be materially affected by Covid-19 virus.

Proposal for appropriation of profits and losses

The following earnings are available for the General Meeting of Shareholders to appropriate:

Retained earnings	EUR	19 458 313
The profit of the year	EUR	<u>-12 390 166</u>
Total profit of the year and retained earnings	EUR	7 068 147
To be carried forward	EUR	<u>7 068 147</u>
	EUR	7 068 147

As regards profit and loss and balance sheet see financial reports with comments below.

PROFIT AND LOSS STATEMENT

Amounts in euro.	Note 1,2	2022	2021
Administration and commission revenues from group companies		80 563	105 353
Other operating expenses	Note 3	-206 810	-149 072
Operating income		-126 247	-43 719
Financial items			
Interest income, group companies		33 808 658	41 545 830
Interest expenses		-34 244 468	-40 626 450
Net currency effects		-2 575 018	-756 793
Income before taxes and appropriations		-3 137 075	118 868
Appropriations			
Dissolution of profit equalization reserve		64 644	147 825
Income before taxes		-3 072 431	266 693
Deferred tax income/expense	Note 13	31 675 782	13 468 499
Current tax expense	Note 4	-40 993 517	0
Net income		-12 390 166	13 735 193

The comprehensive income of the company equals the net income.

BALANCE SHEET

Note 1, 2

Amounts in euro		2022-12-31	2021-12-31
Assets			
<i>Current assets</i>			
Loans granted to group companies	Note 5, 6	1 420 000	2 236 000
Receivables, parent company	Note 13	45 885 019	65 611 955
Loans granted to parent company	Note 5, 6	0	932 718 413
Prepaid expenses		30 316	13 653
Accrued income, group companies	Note 7	247	11 798 511
Cash and cash equivalents		<u>4 953 863</u>	<u>4 539 220</u>
<i>Total current assets</i>		52 289 445	1 016 917 752
Total assets		52 289 445	1 016 917 752
Equity and liabilities			
Equity	Note 9		
<i>Restricted equity</i>			
Share capital (500 000 shares with quote value EUR 11,09)		5 547 358	5 547 358
<i>Unrestricted equity</i>			
Retained earnings		19 458 313	5 723 120
Net income		<u>-12 390 166</u>	<u>13 735 193</u>
<i>Total unrestricted equity</i>		7 068 147	19 458 312
Total equity		12 615 505	25 005 670
Untaxed reserves			
Profit equalisation reserve		543 206	607 850
Liabilities			
<i>Short-term liabilities</i>			
Bond loans		0	932 726 257
Accounts payable, others		0	27 247
Current income tax liability	Note 4, 13	39 061 444	15 715 310
Deferred income tax liability	Note 4, 13	32 470	31 020 474
Accrued interest expenses		0	11 772 722
Other short-term liabilities		1 794	3 119
Other accrued expenses		<u>35 026</u>	<u>39 103</u>
<i>Total short-term liabilities</i>		39 130 735	991 304 232
Total liabilities		39 130 735	991 304 232
Total liabilities and equity		52 289 445	1 016 917 752

Cash-flow statement

Amounts in EUR	2022	2021
Operating activities		
Interest and other payments from parent company	46 791 682	41 400 802
Income taxes	-363 382	-105 298
Interest payments on bond loans	-46 582 571	-41 146 226
Payments to suppliers, remunerations to directors	-221 610	-199 047
Other interest income	-22 352	-20 103
Cash flow from operating activities	-398 233	-69 871
Investing activities		
Repayment loans to parent company	1 066 080 000	-
Amortization loan to group company	816 000	816 000
	1 066 896 000	816 000
Financing activities		
Repayment of bond loans	-1 066 080 000	0
Cash flow from financing activities	816 000	816 000
Cash flow of the period	417 767	746 129
Opening cash balance	4 539 220	3 794 737
Currency difference in cash balance	-3 124	-1 647
Closing cash balance	4 953 863	4 539 220

REPORT ON CHANGES IN EQUITY

	Share capital	Retained earnings	Net income	Total equity
Amount 2021-01-01	5 547 358	0	5 723 120	11 270 478
Retained earnings		5 723 120	-5 723 120	0
Net income			13 735 193	13 735 193
Amount 2021-12-31	5 547 358	5 723 120	13 735 193	25 005 671
Amount 2022-01-01	5 547 358	5 723 120	13 735 193	25 005 671
Retained earnings		13 735 193	-13 735 193	0
Net income			-12 390 166	-12 390 166
Amount 2022-12-31	5 547 358	19 458 313	-12 390 166	12 615 504

The quote value of the shares is EUR 11,09.

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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.

New and revised standards – applicable 1 January 2022:

None of the new applicable IFRS or IFRIC interpretations effective for the financial year starting 2022-01-01 has had any material impact of the annual report of the financial reports of the Company.

New and amended standards and interpretations which have been published but comes into effect later than 2023-01-01

At the time of preparing the consolidated financial statements as of 31 December 2021 there are some standards and interpretations which are to take effect 2023 or later. None of these is expected to have a significant effect on the annual financial statements of PKO Finance AB.

The Company is considered to be 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 :

	2022-12-31	2021-12-31
	EUR	EUR
1 SEK =	0,08969	0,09759
1 PLN =	0,206108	0,21754
1 USD =	1,021677	0,88295

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.

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.

Financial instruments

Loans granted to group companies and bond loans have been reported in accordance with the effective interest method which means that the difference between the discounted (book) value and the nominal values of the loans are amortized over the term over the respective loans. These amortizations are included in reported interest income/expense thus reflecting the effective interest of the respective loans. Reporting of feared credit losses is done in accordance with the simplification rule according to RFR 2 with individual impairment tests and loss provisions.

The first valuation reporting

Accounts receivable and debt instruments are reported when they are issued. Other financial assets and financial liabilities are reported when the company becomes party to the agreed terms of the instrument.

Financial liabilities are classified to accrued cost.

Financial assets

The company removes a financial asset from the balance sheet when the agreed rights to the cash flows from the financial asset ceases or if the company transfers the right to receive the rights to the agreed cash flows by a transaction in which all material risks and rewards connected with the ownership have been transferred.

Financial debts

The company removes a financial debt from the balance sheet when the agreed obligations have been met, are annulled or cease. The company also removes a financial debt when the agreed terms are modified and the cash-flows of the modified debt is materially different. In this case a new financial liability - at real value - based on the new terms is reported.

When a financial liability is removed the difference between the reported value which has been removed and the payment made (including transferred non-monetary assets and assumed debt) in the profit- and loss statement.

Income tax

Reported income taxes includes 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. Please note however the uncertainty described in note 13 and its effect on the reporting below in this paragraph. 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 non-deductible. The tax liability which is described in in note 13 relate to such tax liabilities which is uncertain if the company finally will have to pay. These liabilities relate both to such tax which - in a situation where the Company finally is considered liable to pay tax on the capital gains described in note 13 - relate to capital gains realised during 2019 and 2022 - and deferred tax liabilities on unrealized capital gains. 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 were calculated based on listed value on the Luxembourg stock exchange according to Bloomberg as at the reporting date.

The fair value for the loan to the other group company PKO Leasing Sverige AB is estimated using yield curve and margin model.

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. Such an estimation relates to the final outcome in the tax matter which is referred to in note 13.

Note 3 Other external expenses

	2022	2021
Audit fees PwC	26 855	33 181
Remunerations to directors	23 308	24 119
Administration fees	73 918	44 904
Other external fees	60 028	22 246
Bank fees	<u>22 701</u>	<u>24 623</u>
Total other external expenses	206 810	149 072

The remuneration paid to the Board of Directors amounted to 21 526 (2022) and 23 657 (2021).

As in 2021 there are two males and one female in the Board of Directors.

Other external fees include external legal and advisory fees.

Note 4 Reconciliation of effective tax

	2022 (%)	2022	2021 (%)	2021
Income before tax but after appropriations		-3 072 431		266 693
Tax according to current tax rate	20,60%	-632 921	20,60%	54 939
Non-deductible expenses		17 670		63 398
Non-taxable income		0		-220 483
Upward adjustment on dissolution of profit equalisation reserve		718		1 655
Tax loss carry-forward rolled over from 2021		-97 653		
Flat-rate interest on profit equalisation reserve		591		757
Previously deferred tax expense now reclassified to current tax expense		-31 089 569		2 868 802
Provision for current tax		40 993 517		-16 235 737
Currency effects		125 101		-1 829
Reported effective tax	-303,26%	9 317 454	-5050,18%	-13 468 499

Note 5 Loans granted to group companies

Issued	To be repaid	2022-12-31 Currency of denomination	2021-12-31 Reporting currency (EUR)	2022-12-31 Reporting currency (EUR)	2021-12-31 Reporting currency (EUR)
2012-07-25	2022-07-25	€ 0	€ 49 936 844	0	49 936 844
2012-09-26	2022-09-26	\$0	\$999 817 808	0	882 781 569
2017-12-28	2023-12-25	€ 1 420 000	€ 2 236 000	1 420 000	2 236 000
Total				1 420 000	934 954 413
				Opening balance	934 954 412
				Final payments/amort	-1 066 896 000
				Currency effects	133 361 588
				Closing balance	1 420 000

Note 6 Financial assets and liabilities

Information on fair values

	2022-12-31	2022-12-31	2021-12-31	2021-12-31
	Reported value	Fair value	Reported value	Fair value
Loans to parent company incl. accrued interest income	0	0	944 491 135	1 032 042 064
Loans to other group companies incl. accrued interest income	1 420 247	1 424 371	2 236 388	3 894 307
Accrued administrative fee, parent company	-	-	25 401	25 401
Cash and cash equivalents	4 953 863	4 953 863	4 539 220	4 539 220
Bond loans incl. accrued interest expenses	0	1 140 342 249	944 498 979	992 409 609

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 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 were valued at the same value since the parent company loans are pledged as security for the bond loans. The fair value for the loan to the other group company PKO Leasing Sverige AB is estimated using yield curve and margin model.

Structure of maturity for financial debts

	Book value 2022-12-31	Maturities up to one year	Maturities between one and five years	Maturities over five years
Loans to group companies	1 420 000	1 420 000	-	-

	Book value 2021-12-31	Maturities up to one year	Maturities between one and five years	Maturities over five years
Loans to group companies	2 236 000	2 236 000	-	-

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, group companies

	2022-12-31	2021-12-31
Accrued interest income	247	11 773 110
Accrued administrative fee income	-	25 401
Total accrued income, group companies	247	11 798 511

Note 8 Bond loans

Issued	Due for repayment	2022-12-31	2021-12-31	2022-12-31	2021-12-31
2012-07-25	2022-07-25	Currency of denomination		Reporting currency (EUR)	
2012-09-26	2022-09-26	€ 0	€ 49 937 123	0	49 937 123
2014-01-23	2019-01-23	\$ 0	\$ 999 791 507	0	882 789 134
Total		-	€ 0	-	0
				0	932 726 257

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Note 9 Parent company

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

Note 10 Related party transactions

	<u>2022</u>	<u>2021</u>
<i>Cash flow items</i>		
Interest and other payments from parent company	45 947 934	41 400 802
Interest payments from other group companies than the parent company	27 748	33 983
Repayment of loans to the parent company	1 066 080 000	0
Repayment of loans from other group companies than the parent company	816 000	816 000
<i>Balance sheet items</i>		
Loans granted to other group companies than the parent company - current assets	1 420 000	2 236 000
Loans granted to other group companies than the parent company - current assets	0	932 718 413
Receivable parent company - capital cover guarantee	45 885 019	65 611 955
Accrued income, parent company	0	11 798 123
Accrued income, other group companies than the parent company	247	388
Accrued interest expense, parent company		2 130 151
<i>Profit-and loss items</i>		
Interest income, parent company	33 780 985	41 512 059
Interest income, other group companies than parent company	27 672	33 771
Administration and commission revenues	80 563	105 353

The loans granted to the parent company were payable in full at maturity and carried fixed interest. The loan to the group company PKO Leasing Sverige AB are amortized on a monthly basis with variable interest, linked to EURIBOR. The parent company has guaranteed the loan to PKO Leasing Sverige AB. Based on the above and the fact that the parent company is a bank no credit losses are expected or projected.

Note 11 Proposal for appropriation of profits and losses

The following profit is to be appropriated by the Annual General Meeting of Shareholders		<u>2022</u>	<u>2021</u>
Retained earnings	EUR	19 458 313	0
The profit of the year	EUR	<u>-12 390 166</u>	<u>5 723 120</u>
Total profit of the year and retained earnings	EUR	7 068 147	5 723 120

The Board of Directors proposes that the retained earnings are appropriated as follows:

To be distributed as dividend to the shareholder	EUR	0	5 723 120
To be carried forward	EUR	<u>7 068 147</u>	13 735 193
	EUR	7 068 147	13 735 193

Note 12 Pledged assets and contingent liabilities

Pledged assets	2022-12-31	2021-12-31
Loans, group companies	EUR 0	942 280 536

Note 13 Provisions, deferred tax liability, capital injection

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. Due to the doubts relating to taxation of foreign exchange differences on loans granted to the Bank and issue commitments in the territory of Sweden, PKO Finance AB, whose reporting currency is the EUR, applied to the Swedish Council for advance ruling for such a ruling. PKO Finance AB lends funds obtained from bonds issued to PKO Bank Polski ("Bank") and at the same time recognizes receivables from the loans and liabilities relating to the issue.

Changes in foreign exchange rates have a symmetrical impact on the valuation of such receivables and liabilities, because foreign exchange differences on the valuation of loans granted are matched with the opposite foreign exchange differences on the valuation of liabilities in respect of the bonds issued. According to the individual ruling obtained by PKO Finance AB from the Swedish Council for Tax Rulings (Skatterättsnämnden) on 14 March 2019, a company for which EUR is the reporting currency should tax the EUR/SEK exchange differences on the loans (SEK/EUR) between the maturity date and repayment date. At the same time it is not possible to recognize a tax cost related to foreign exchange differences on the company's liabilities in respect of the bond issue at the maturity date. If the Council's ruling would gain legal force, it would mean that a different approach is applied

in Sweden to companies reporting in EUR compared with companies reporting in SEK (which can also include foreign exchange differences on liabilities in their tax settlements), and this would increase the economic risk and hamper effective hedging of the currency risk.

In the opinion of the Company, such an approach would be contrary to Article 63 of the Treaty on the Functioning of the European Union (TFEU) related to the need to ensure free flow of capital in the EU or Article 49 and 54 of TFEU related to the freedom of business activities.

On May 4, 2020 the SAC resolved to quash (set aside) the ruling of the Council for Tax Rulings.

During 2020 the STA accepted the company's tax return for 2019. In the end of 2021 however the tax office resolved to make a reassessment of the 2019 tax return, based on - in broad terms - the same arguments that the Council for advance tax rulings used in the quashed advance ruling, referred to above. The company has, as has been reported previously, for prudence reasons made a provision in the accounts for the income tax and interest which follows from the abovementioned re-assessment relating to 2019 and which amounts to EUR 15 668 110.

In the beginning of 2022 the company has paid the tax which the above re-assessment shows and appealed the tax office re-assessment resolution to the administrative court. During 2022 the company has repaid the last two bond loans following repayment of the corresponding loans to the parent company. In accordance with the view of the tax office the company has set up provisions for income tax on the capital gains which according to the view of the tax office has materialized during 2022. In February 2023 the tax has been paid. If the tax office refuses to accept the 2022 tax return or resolves to re-assess it, the company will appeal such a resolution to the administrative court.

Note 14 Events subsequent to the end of the financial year

The company has in the beginning of 2023 paid the income tax for 2022 referred to in note 13 and made an appeal to administrative court to overturn the tax office resolution if such a resolution is made.

The company's balance sheet and income statement will be presented to the annual general meeting during 2023 for adoption.

The board of directors and the managing director certifies that the annual report has been prepared in accordance with the annual accounts act and RFR 2. The annual report has been prepared in accordance with generally accepted accounting principles and gives a true and fair view of the company's income and financial position. The management report for the company provides a fair overview of the development of the business of the company, financial position and income and describes material risks and uncertainties that face the company.

Stockholm 2023-

Maciej Zukowski
Chairman

Håkan Ambjörnsson
Managing Director

Iwona Jankowska
Board Member

Our audit report was issued 2023-
PricewaterhouseCoopers AB

Susanne Sundvall
Authorized auditor