

PKO Finance AB (publ)

Annual report for the period 2024-01-01 - 2024-12-31

(CID 556693-7461)

c/o Corporate Services i Fillingen AB
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191 43 Stockholm, Sollentuna
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.


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

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.

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.

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 2022 the company has repaid bondloans of MUSD 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 that has been levied by the tax office and which might be levied by the tax office regarding the loan to PKO Leasing Sverige AB and which was repaid in 2023.

The financial year

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.

	2024	2023	2022	2021
Interest income	78	36	33 809	41 546
Income before taxes and appropriations	-437	-145	-3 137	119
Equity	12 231	12 546	12 616	25 006
Total assets	12 806	53 858	52 289	1 016 918

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Risks and uncertainties

Market risk

There is only one material receivable to the parent company which relates to an unpaid shareholders contribution. The company has no external loans.
All material cash at banks is held in EUR, which is the reporting currency of the company.

Liquidity risks

As mentioned above all estimated tax liabilities regarding income tax on capital gains relating to currency gains on loans to group companies have been paid to the Company's current account with the tax office.

Credit and counterparty risk

The financial position of the parent company 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 only material currency risks relate to the receivable on the parent company and the balance on the current account with the tax office that are denominated in SEK. Balancing liability items in SEK are missing.

A handwritten signature in blue ink, appearing to read "K. Rodulinski".

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 11.

Proposal for appropriation of profits and losses

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

Retained earnings	EUR	6 998 501
The profit of the year	EUR	<u>-315 317</u>
Total profit of the year and retained earnings	EUR	6 683 184
To be carried forward	EUR	<u>6 683 184</u>
	EUR	6 683 184

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

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PROFIT AND LOSS STATEMENT

Amounts in euro.	Note 1,2	2024	2023
Other operating expenses	Note 3	-276 705	-171 735
Operating income		-276 705	-171 735
Financial items			
Interest income, group companies		77 804	36 099
Interest expenses		1 472	-965
Net currency effects		-239 650	-8 575
Income before taxes and appropriations		-437 080	-145 176
Appropriations			
Dissolution of profit equalization reserve		45 062	49 853
Income before taxes		-392 018	-95 323
Current tax	Note 4, 11	76 700	25 678
Net income		-315 317	-69 645

The comprehensive income of the company equals the net income.

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BALANCE SHEET

Note 1, 2

Amounts in euro		2024-12-31	2023-12-31
Assets			
<i>Long-term financial assets</i>			
Deferred tax assets	Note 5	73 350	701 002
<i>Current assets</i>			
Other receivables		1 059 411	41 049 200
Receivables, parent company	Note 8	5 658 647	5 830 062
Prepaid expenses		14 344	14 779
Cash and cash equivalents		<u>6 000 086</u>	<u>6 263 078</u>
<i>Total current assets</i>		12 732 487	53 157 119
Total assets		12 805 837	53 858 121
Equity and liabilities			
Equity			
<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		6 998 502	7 068 147
Net income		<u>-315 317</u>	<u>-69 645</u>
<i>Total unrestricted equity</i>	Note 9	6 683 184	6 998 502
Total equity		12 230 542	12 545 860
Untaxed reserves			
Profit equalisation reserve		448 291	493 353
Liabilities			
<i>Short-term liabilities</i>			
Tax liabilities	Note 4, 11	79 470	40 148 961
Accrued interest expenses		0	629 349
Other short-term liabilities		298	267
Other accrued expenses		<u>47 236</u>	<u>40 331</u>
<i>Total short-term liabilities</i>		127 004	40 818 908
Total liabilities		127 004	40 818 908
Total liabilities and equity		12 805 837	53 858 121



Cash-flow statement

Amounts in EUR	2024	2023
Operating activities		
Interest and other payments from parent company	0	40 068 897
Income taxes	0	-40 032 720
Payments to suppliers, remunerations to directors	-262 992	-146 961
Cash flow from operating activities	-262 992	-110 784
Investing activities		
Amortization loan given to group company	0	816 000
Cash flow from financing activities	0	816 000
Cash flow of the period	-262 992	1 309 216
Opening cash balance	6 263 078	4 953 863
Currency difference in cash balance	0	0
Closing cash balance	6 000 086	6 263 079

REPORT ON CHANGES IN EQUITY

	Share capital	Retained earnings	Net income	Total equity
Amount 2023-01-01	5 547 358	19 458 313	-12 390 166	12 615 505
Retained earnings		-12 390 166	12 390 166	0
Net income			-69 645	-69 645
Amount 2023-12-31	5 547 358	7 068 147	-69 645	12 545 860
Amount 2024-01-01	5 547 358	7 068 147	-69 645	12 545 860
Retained earnings		-69 645	69 645	0
Net income			-315 317	-315 317
Amount 2024-12-31	5 547 358	6 998 502	-315 317	12 230 542

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



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 2024:

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 2025-01-01

At the time of preparing the consolidated financial statements as of 31 December 2024 there are some standards and interpretations which are to take effect 2025 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 :

	2024-12-31	2023-12-31
	EUR	EUR
1 SEK =	0,08715	0,08979
1 PLN =	0,22991	0,22991
1 USD =	0,90595	0,90595

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.

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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

For 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

	<u>2024</u>	<u>2023</u>
Audit fees (KPMG 2024 PwC 2023)	12 467	42 092
Remunerations to directors	27 718	21 329
Administration fees	64 872	67 526
Other external fees	169 781	38 901
Bank fees	<u>1 868</u>	<u>1 890</u>
Total other external expenses	276 705	171 737

The remuneration paid to the Board of Directors amounted to 6 580 (2024) and 21 550 (2023).

As in 2023 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**Tax expense**

	<u>2024</u>	<u>2023</u>
Deferred tax income	60 936	67 662
Adjustment income tax relating to prior years.	15 764	-1 014
Tax relating to current year	=	<u>-40 970</u>
Current tax	76 700	25 678

Reconciliation of effective tax

	<u>2024</u>	<u>2024</u>	<u>2023</u>	<u>2023</u>
	(%)		(%)	
Income before tax but after appropriations		-392 018		-95 323
Tax according to current tax rate	20,60%	-80 756	20,60%	-19 637
Non-deductible expenses		33 781		6 484
Non-taxable income		-16 331		0
Upward adjustment on dissolution of profit equalisation reserve		501		529
Flat-rate interest on profit equalisation reserve		2 357		1 910
Correction tax expense, prior years		-15 765		-1 014
Currency effects		<u>-487</u>		<u>-13 951</u>
Reported effective tax	19,57%	-76 700	26,94%	-25 679

Note 5 Financial assets and liabilities*Information on fair values*

	<u>2024-12-31</u>	<u>2024-12-31</u>	<u>2022-12-31</u>	<u>2022-12-31</u>
	Reported value	Fair value	Reported value	Fair value
Cash and cash equivalents	6 000 086	6 000 086	6 263 078	6 263 078
Other receivables (STA current account)	1 059 411	1 059 411	41 047 517	41 047 517

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.

Note 6 Deferred tax asset

	<u>2024</u>	<u>2023</u>
Opening balance	701 002	679 556
Loss relating to prior years utilized	-679 999	-1 014
Current loss	57 700	36 107
Currency effect opening balance	-5 353	-13 647
	0	0
Closing balance	73 350	701 002



Note 7 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 8 Related party transactions

	2024	2023
<i>Cash flow items</i>		
Interest and other payments from parent company	0	38 612 720
Interest payments from other group companies than the parent company	0	36 177
Repayment of loans from other group companies than the parent company	0	1 420 000
<i>Balance sheet items</i>		
Loans granted to parent company - current assets	0	
Receivable parent company - capital cover guarantee	5 658 647	5 830 062
<i>Profit and loss items</i>		
Interest income, parent company	0	168
Interest income, other group companies than parent company	0	35 930

The loan to the group company PKO Leasing Sverige AB were amortized on a monthly basis with variabel interest, linked to EURIBOR.

Note 9 Proposal for appropriation of profits and losses

The following profit is to be appropriated by the Annual General Meeting of Shareholders		2024
Retained earnings	EUR	6 998 502
The profit of the year	EUR	-315 317
Total profit of the year and retained earnings	EUR	6 683 185

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

To be distributed as dividend to the shareholder	EUR	0
To be carried forward	EUR	6 683 185

Note 10 Pledged assets and contingent liabilities

	2024-12-31	2023-12-31
Pledged assets and contingent liabilities	None	None

Note 11 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 made 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. During 2024 the tax office resolved to reassess their taxation resolution relating to the 2022 tax return in line with their view described above. The company has not yet resolved whether to appeal this reassessment. During 2024 the administrative court resolved to accept the tax office opinion regarding the 2019 tax return. The company has appealed this ruling to the administrative appeals court (kammarrätten).




Note 12 Events subsequent to the end of the financial year

The company's balance sheet and income statement will be presented to the annual general meeting during 2025 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 2025-

06-13


Przemysław Mechliński
Chairman


Håkan Ambjörnsson
Managing Director


Iwona Jankowska
Board Member

Our audit report was issued 2025-
KPMG AB

Katrin Schrewelius
Authorized auditor