

PZU Finance AB (publ)
Org nr 556972-9832

”Office translation”

Annual report for the financial year 2016-01-01--2016-12-31

The Board of Directors presents the following annual report

Contents	Page
- Administration Report	2
- Income Statement	4
- Balance Sheet	5
- Statement of changes in equity	7
- Cash flow statement	8
- Notes to the Accounts	9

Unless otherwise stated, all amounts are reported in EUR.

This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern

Administration Report

Information regarding the operations

The PZU Finance AB (Company) was registered 28 May 2014. The object of the Company's business is to conduct financial activities primarily through the borrowing of funds by way of issuance of bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit facilities and loans, and to conduct any other activities compatible therewith or to provide any related services. The Company does not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority.

The Company in total issued senior bonds with nominal value of EUR 850,000,000. First issue was on 3 July 2014 with nominal value of EUR 500,000,000 and issue price of 99,407 %. The second was on 16 October 2015 with nominal value of EUR 350,000,000 and issue price of 99,218 %. The second issue was consolidated with the first one. Bonds are listed on the Irish Stock Exchange (ISE - XS1082661551) on the basis of a prospectus approved by the Central Bank of Ireland. Additionally bonds are quoted on Alternative Trading System on Warsaw Stock Exchange and BondSpot. Bonds are due on 3 July 2019. The bond bears 1,375 % interest from the date of publication date. Interest is paid annually in arrears with payment on 3 July.

The liabilities of PZU Finance AB arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by Powszechny Zakład Ubezpieczeń SA (PZU) to all bondholders. The maximum value of the guarantee was not specified and it expires upon the expiry of the repayments towards PZU Finance AB

The bond bears 1,375 % interest from the date of publication date. Interest is paid annually in arrears with payment on 3 July, 2017 which will be the third payment on the 2014 bond and the second payment on the 2015 bond. PZU Finance AB's granted loan to PZU has an interest of 1,425% from 7 July 2014 and 19 October 2015 respectively. Interest is paid annually in arrears with payment on 27 June, 2017 which will be the third payment for the 2014 loan and the second payment for the 2015 loan.

Ownership structure

PZU Finance AB, reg. no 556972-9832, with registered office in Stockholm, is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, reg. no KRS 0000009831 domiciled in Warsaw SA (<https://www.pzu.pl/>), Poland.

Significant events during the financial year

There are no significant events to report for the financial year.

Significant events after the financial year

There are no significant events after financial year.

Basic risks and uncertainties

PZU Finance AB overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company.

The Board has the overall responsibility for establishing and monitoring the company's risk management, for additional information see note 2.

Corporate Governance Report

All financial statements prepared by PZU Finance AB are quality assured by the Board.

Reports to be published - Annual Report constituted according to the Annual Accounts Act and so called legally restricted IFRS - examined in addition to the elected auditors.

In the Board's apprehension and in light of PZU Finance AB limited activity and few transactions, the above control system of the financial reporting is regarded as adequate.

Proposed appropriation of profits

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

Retained earnings	123,539
Net profit for the year	262,300
Total	<u>385,839</u>
Amount to be carried forward	<u>385,839</u>

Income Statement	Note	2016	2015
Net sales		4,001	4,000
Operating expenses			
Other external expenses	3	-102,975	-105,289
Personnel costs	4	<u>-7,865</u>	<u>-7,978</u>
Total operating expenses		-110,840	-113,267
Operating profit/loss		-106,839	-109,267
Profit/loss from financial items			
Other interest income and similar profit/loss items	5	14,118,164	9,262,662
Interest expenses and similar profit/loss items		<u>-13,674,832</u>	<u>-9,001,404</u>
Total profit/loss from financial items		443,332	261,258
Profit/loss after financial items		336,493	151,991
Tax on profit for the year	6	<u>-74,193</u>	<u>-33,591</u>
Net profit for the year		<u>262,300</u>	<u>118,400</u>

Statement of comprehensive income has not been established as there have been no transactions to be included in other comprehensive income.

Balance Sheet	Note	2016-12-31	2015-12-31
Assets			
Non-current assets	7		
Receivables from parent company	8	<u>841,320,000</u>	<u>841,320,000</u>
Total non-current assets		<u>841,320,000</u>	<u>841,320,000</u>
Current assets			
Prepaid expenses and accrued income	9	<u>9,720,193</u>	<u>6,188,775</u>
Cash and cash equivalents		<u>214,303</u>	<u>1,764,322</u>
Total current assets		<u>9,934,496</u>	<u>7,953,097</u>
Total assets		<u>851,254,496</u>	<u>849,273,097</u>

Balance Sheet	Note	2016-12-31	2015-12-31
Equity and liabilities			
Equity			
<u>Restricted equity</u>			
Share capital		<u>52,773</u>	<u>52,773</u>
<u>Non-restricted equity</u>			
Retained earnings		123,539	5,139
Net profit for the year		<u>262,300</u>	<u>118,400</u>
Total non-restricted equity		<u>385,839</u>	<u>123,539</u>
Total equity		<u>438,612</u>	<u>176,312</u>
Non-current liabilities			
Bonds issued	7	<u>842,796,661</u>	<u>842,796,661</u>
Total non-current liabilities		<u>842,796,661</u>	<u>842,796,661</u>
Current liabilities			
Accounts payable - trade		13,309	184,370
Current tax liabilities	6	46,239	18,080
Other current liabilities		299	126,920
Accrued expenses and deferred income	10	<u>7,959,376</u>	<u>5,970,754</u>
Total current liabilities		<u>8,019,223</u>	<u>6,300,124</u>
Total equity and liabilities		<u>851,254,496</u>	<u>849,273,097</u>

Statement of changes in equity

	Note	Share capital	Other contributed capital	Retained earnings	Total equity
Equity 2016-01-01		52,773	-	123,539	176,312
Net profit for the year		=	=	<u>262,300</u>	<u>262,300</u>
Equity 2016-12-31		52,773	0	385,839	438,612

	Note	Share capital	Other contributed capital	Retained earnings	Total equity
Equity 2015-01-01		52,773	-	5,139	57,912
Net profit for the year		=	=	<u>118,400</u>	<u>118,400</u>
Equity 2015-12-31		52,773	0	123,539	176,312

Cash flow statement	2016-01-01 -2016-12-31	2015-01-01 -2015-12-31
Operating activities		
Profit after financial items	336,493	151,991
Adjustment for non-cash items	-1,543,800	-168,272
Income tax paid	-46,034	-15,488
Cash flow from operating activities before changes in working capital	-1,253,341	-31,769
Increase/decrease in other current receivables	1,004	26,952
Increase/decrease in other current operating liabilities	-297,682	151,608
Cash flow from operating activities	<u>-1,550,019</u>	<u>146,791</u>
Investing activities		
Loans given to parent company	=	<u>-346,150,000</u>
Cash flow from investing activities	0	-346,150,000
Financing activities		
Bonds issued	=	347,489,768
Cash flow from financing activities	0	347,489,768
Cash and cash equivalents at beginning of the year	1,764,322	277,763
Cash flow for the year	<u>-1,550,019</u>	<u>1,486,559</u>
Cash and cash equivalents at the end of the year	<u>214,303</u>	<u>1,764,322</u>
Notes to cash flow statement		
Adjustment for non-cash items		
Accrued expenses and deferred income	1,988,622	2,122,528
Accrued interest income, parent company	-3,532,422	-2,290,800
Exchange differences	=	=
Net non-cash items	<u>-1,543,800</u>	<u>-168,272</u>

During the financial year the Company has received interest from the parent company to an amount of EUR 10,586,270. Interest to the bondholders has been paid to an amount of EUR 11,687,500.

Notes

Note 1 Accounting and valuation principles

General information

PZU Finance AB corporate identity number 556972-9832, is a limited liability company registered in Sweden with office in Stockholm. The office address is Sveavägen 9, 111 57 Stockholm, Sweden. Activities include financial activities and operations as a natural link.

PZU Finance AB is a subsidiary of Powszechny Zakład Ubezpieczeń SA, corporate identity number KRS 0000009831 based in Warsaw, Poland. PZU prepares consolidated financial statement that can be found on their homepage; <https://www.pzu.pl/>

Accounting and valuation principles

The annual report of PZU Finance AB has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that the company so far as possible, applies all EU-approved International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee (IFRIC) as part of the Annual Accounts Act and Security Act, and considered the relationship between accounting and taxation.

The annual report has been prepared on the historical cost basis. The following describes the principal accounting policies adopted.

New and amended standards and interpretations not yet in force

A number of new or revised IFRS effective for reporting periods beginning January 1, 2016 or later have been published by the IASB. These new standards are not expected to have any impact on the company's accounts.

Functional and presentation currency

The Company's reporting currency and the functional currency is Euro (EUR).

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated to functional currency at the closing date exchange rate. Exchange differences are recognized in the income statement.

Borrowing costs

Borrowing costs are recognized in the income statement in the period in which they arise.

Income taxes

The tax expense represents the sum of current and deferred tax.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable profit differs from the reported results in the income statement when it is adjusted for non-taxable income and non-deductible expenses and income and expense that are taxable or deductible in other periods. The company's current tax is calculated using tax rates that have been enacted by the balance sheet date.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the income statement, except when the tax relates to items recognized in other comprehensive income or directly in equity. In such cases, the tax is also recognized in other comprehensive income or directly in equity.

Financial instruments

A financial asset or financial liability is recognized in the balance sheet when the company becomes part to the instrument's contractual terms. A receivable is recognized when the company has performed work and a contractual obligation exists for the counterparty to pay, even if an invoice has not been sent. Liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if an invoice has not been received.

A financial asset is removed from the balance sheet when the contractual rights are realized, lose their validity or the company loses control of them. A financial liability is removed from the balance sheet when the contractual obligation is fulfilled or when extinguished in other way.

The Company's financial instruments mainly consist of loan receivables on the parent company and bond loans.

Loans and bonds are recognized at amortized cost using the effective interest method and interest income and expenses are recognized using the effective interest method. The effective interest rate is the rate that discounts estimated future payments during a financial instrument's expected duration of the financial asset or liability's net value. The calculation includes all paid or received fees by contractors, such as transaction costs and all premiums and discounts.

At each reporting date the Company assesses based on objective evidence whether there is a need to test the loan for recoverability. Objective evidence consists of observable circumstances that have occurred and have a negative impact on the ability to recover the acquisition cost. If objective evidence exists, expected future cash flows are discounted using the original effective interest rate. If the present value of cash flows related to financial instrument is lower than its carrying amount, the impairment charge is presented in profit/loss for the year.

Property, plant and equipment

Fixed assets are recognized at acquisition cost. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition.

Current assets

Current assets are reported at the lower of acquisition cost and net realizable value. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition. Net realizable value is defined as the sales value less estimated selling expenses.

Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Contingent liabilities

A contingent liability is a possible obligation arising from past events and whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company that may occur or does not occur, or a present obligation arising from past events, but not recognized as a liability or provision if it is not probable that an outflow of resources will be required to settle the obligation or the obligation cannot be measured with sufficient reliability. Contingent liabilities are reported in line with balance sheet.

Contingent assets

A contingent asset is a possible asset arising from past events whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company occurring or not occurring. A contingent asset is not recognized as an asset in the balance sheet.

Cash flow Statement

The cash flow statement shows the company's changes in the company's cash and cash equivalents during the financial year. The cash flow statement has been prepared using the indirect method. The reported cash flow includes only payments and payout transactions.

Note 2

Financial risk management and financial instruments

The Company is exposed to various types of financial risks, including market, liquidity and credit risks through its business activities. Market risks primarily consist of interest rate risk. It is the board of directors who are ultimately responsible for managing and monitoring of the Company's exposure of financial risks. The frameworks relating to exposure, management and monitoring of financial risks are determined by the board.

Market risk

Currency risk

Market risk can be the risk that a change in market prices will affect a company's income or the value of its holdings of financial instruments.

PZU Finance AB is not exposed to significant currency risk as the loan to the parent company and the issued bonds are of similar amount in the same currency (euro).

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates.

The company's interest rate risk profile of the interest-bearing financial instruments was:

	2016-12-31	2015-12-31
	EUR	EUR
<u>Fixed interest rate (excluding interest accrued)</u>		
Receivables from parent company	841,320,000	841,320,000
Bond	842,796,661	842,796,661

The Company has minimized the interest rate risk by closing matching amounts and timing of cash flows related to the loans with those related to bond liability.

Liquidity and financing risk

Liquidity risk can be the risk that a Company will encounter difficulty in meeting obligations arising from its financial liabilities which shall be settled by way of cash payment.

PZU Finance AB's obligation to the bondholders includes annual interest payments and the final repayment at maturity.

The bond is guaranteed by the parent company Powszechny Zaklad Ubezpieczen SA which minimizes the possible liquidity risk for the company.

The financing risk is the risk that the Company cannot raise sufficient funds at a reasonable cost. Maturity distribution of contractual payment obligations related to the Company's financial liabilities are presented in the table below.

The figures in the table are not discounted values and they include, where appropriate, interest payments, which means that it is not possible to reconcile the amounts reported in the balance sheets. Interest payments are determined based on the conditions prevailing at the

balance sheet date.

The Company's loan agreements contain no terms that could cause actual payment date will be substantially earlier than indicated in the table.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to bondholders	-	11,687,500	873,375,000	-	885,062,500
Account payable – trade	13,309	-	-	-	13,309
Other current liabilities	299	-	-	-	299
Total	13,608	11,687,500	873,375,000	-	885,076,108

Table below refers to 2015

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to bondholders	-	11,687,500	885,062,500	-	896,750,000
Account payable – trade	184,370	-	-	-	184,370
Other current liabilities	126,920	-	-	-	126,920
Total	311,290	11,687,500	885,062,500	-	897,061,290

Credit risk

Credit risk can be the risk of financial loss to a company if a counterparty fails to fulfill its contractual obligations.

PZU Finance AB exposure to credit risk relates only to loans granting to the parent company.

The total value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at year end were as follows:

	2016-12-31 EUR	2015-12-31 EUR
Receivables from parent company	841,320,000	841,320,000
Cash and cash balances	<u>214,303</u>	<u>1,764,322</u>
	841,534,303	843,084,322

The Company's cash is placed at Nordea Bank AB, Sweden

Operational risk

Operational risk can be the risk of direct or indirect loss arising from a variety of occasions associated with a company's processes, personnel, infrastructure and from external factors other than credit, market and liquidity risks such as those derived from regulations and generally accepted customs. Operational risk arises from all of a Company's activities.

The operational risk of the company is reduced by the board's continuous monitoring of the company's financial statements and a general business knowledge.

Note 3 Audit fees of the year

	2016-01-01 <u>-2016-12-31</u>	2015-01-01 <u>-2015-12-31</u>
<u>KPMG AB</u>		
Audit fees	<u>8,755</u>	<u>6,561</u>
Total	<u>8,755</u>	<u>6,561</u>

Note 4 Personnel expenses

	2016-01-01 <u>-2016-12-31</u>	2015-01-01 <u>-2015-12-31</u>
Wages, salaries, social security and pension costs		
Wages and salaries	5,753	5,817
Compulsory social security contributions	1,892	1,757
Other personnel costs	<u>220</u>	<u>404</u>
Total	<u>7,865</u>	<u>7,978</u>
 Number of employees, etc		
Women	1	1
Men	<u>0</u>	<u>0</u>
Total	<u>1</u>	<u>1</u>

The company has only one employee, the remaining board members and CEO receive no compensation.

Note 5 Other interest income and similar profit/loss items

	2016-01-01 <u>-2016-12-31</u>	2015-01-01 <u>-2015-12-31</u>
Interest income	14,118,692	9,259,636
Ex-change rate changes	<u>-528</u>	<u>3,026</u>
Total	<u>14,118,164</u>	<u>9,262,662</u>

Note 6 Tax on profit for the year

	2016-01-01 <u>-2016-12-31</u>	2015-01-01 <u>-2015-12-31</u>
Tax on profit for the year	<u>74,193</u>	<u>33,591</u>
Total	<u>74,193</u>	<u>33,591</u>

	2016	2015
Result before tax	336,493	151,991
Tax rate	(22%) 74,028	(22%) 33,438
Non-deductible costs	165	153
Tax on profit for the year	(22%) 74,193	(22,1%) 33,591

Note 7 Financial assets and liabilities specified by category

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Book value		
Loan to parent company	841,320,000	841,320,000
Prepaid expenses and accrued income	9,720,193	6,188,775
Cash and cash equivalents	214,303	1,764,322
Total	851,254,496	849,273,097
 <u>Assets</u>		
Fair value		
Loan to parent company	870,667,861	847,684,812
Prepaid expenses and accrued income	9,720,193	6,188,775
Cash and cash equivalents	214,303	1,764,322
Total	880,602,357	855,637,909

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Book value		
Bonds issued	842,796,661	842,796,661
Account payable - trade	13,309	184,370
Current tax liabilities	46,239	18,080
Accrued expenses and deferred income	7,959,376	5,970,754
Other current liabilities	299	126,920
Total	850,815,884	849,096,785

<u>Liabilities</u>		
Fair value		
Bonds issued	869,261,765	851,489,511
Account payable - trade	13,309	184,370
Current tax liabilities	46,239	18,080
Accrued expenses and deferred income	7,959,376	5,970,754
Other current liabilities	299	126,920
Total	877,280,988	857,789,635

The book value of financial instruments for which fair value is not listed above constitutes a reasonable approximation of fair value, when duration is short.

The information about fair value of loans and bonds belong to level 2 in the fair value hierarchy. Fair value of the loans was estimated using a financial model. Although the bonds are listed on Ireland Stock Exchange and Warsaw Stock Exchange, their fair value was also based on a financial model rather than market pricing due to low liquidity of the bonds. The loan is valued to the same value as the bond as the parent company guarantees the bond.

Note 8 Transactions with related parties

<u>2016-01-01</u>	<u>2015-01-01</u>
<u>-2016-12-31</u>	<u>-2015-12-31</u>

Disclosure regarding the parent company

The company is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, domiciled in Warsaw, Poland.

Receivables with parent company

Powszechny Zakład Ubezpieczeń SA	841,320,000	841,320,000
Accrued interest income	<u>9,715,819</u>	<u>6,183,397</u>
Total	851,035,819	847,503,397

	<u>2016-01-01</u> <u>-2016-12-31</u>	<u>2015-01-01</u> <u>-2015-12-31</u>
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The receivable bear an interest of 1,425%

Income and costs regarding parent company

Interest income, parent company	<u>14,118,692</u>	<u>9,259,636</u>
Total	<u>14,118,692</u>	<u>9,259,636</u>

PZU has guaranteed the bond issue for EUR 350,000,000 (EUR 500,000,000) as well as interests 16 October 2015 (3 July 2014). EUR 850,000,000 in total.

Note 9 Prepaid expenses and accrued income

	<u>2016-12-31</u>	<u>2015-12-31</u>
Accrued interest income	9,715,819	6,183,397
Other items	<u>4,374</u>	<u>5,378</u>
Total	<u>9,720,193</u>	<u>6,188,775</u>

Note 10 Accrued expenses and deferred income

	<u>2016-12-31</u>	<u>2015-12-31</u>
Accrued interest expenses	7,953,126	5,965,754
Accrued audit fees	<u>6,250</u>	<u>5,000</u>
Total	<u>7,959,376</u>	<u>5,970,754</u>

Note 11 Pledged assets and contingent liabilities

Pledged assets	None	None
Contingent liabilities	None	None

Declaration of the Board

The Board and CEO declare that the annual accounts were prepared in accordance with generally accepted accounting principles in Sweden. The annual accounts provide a true and fair picture of the performance and financial position of the Company. The Board of Directors' Report provides a true and fair picture of the development of the operations, financial position and performance of the Company and also describes material risks and uncertainties to which the Company is exposed.

Stockholm 2017-04-

Agnieszka Karbowskiak
Chairman

Mariusz Porebski
Board member

Ylva Hökerberg Jahnke
CEO

Our audit report has been issued 2017-04-

KPMG AB

Mårten Asplund
Authorized public accountant