

PZU Finance AB (publ)
Org nr 556972-9832

”Office translation”

Annual report for the financial year 2017-01-01--2017-12-31

The Board of Directors presents the following annual report

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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.

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, 2018 which will be the fourth payment on the 2014 bond and the third 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, 2018 which will be the fourth payment for the 2014 loan and the third 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 allocation of results

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

Retained earnings	385,839
Net profit for the year	<u>258,558</u>
Total	<u>644,397</u>
Amount to be carried forward	<u>644,397</u>
	<u>644,397</u>

Income Statement	Note	2017	2016
Net sales		4,000	4,001
Operating expenses			
Other external expenses	3	-117,230	-102,975
Personnel costs	4	<u>-5,793</u>	<u>-7,865</u>
Total operating expenses		-123,023	-110,840
Operating profit/loss		-119,023	-106,839
Profit/loss from financial items			
Other interest income and similar profit/loss items	5	14,125,868	14,118,164
Interest expenses and similar profit/loss items		<u>-13,675,349</u>	<u>-13,674,832</u>
Total profit/loss from financial items		450,519	443,332
Profit/loss after financial items		331,496	336,493
Tax on profit for the year	6	<u>-72,938</u>	<u>-74,193</u>
Net profit for the year		<u><u>258,558</u></u>	<u><u>262,300</u></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	2017-12-31	2016-12-31
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>11,805,570</u>	<u>9,720,193</u>
Cash and cash equivalents		<u>347,598</u>	<u>214,303</u>
Total current assets		<u>12,153,168</u>	<u>9,934,496</u>
Total assets		<u>853,473,168</u>	<u>851,254,496</u>

Balance Sheet	Note	2017-12-31	2016-12-31
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		385,839	123,539
Net profit for the year		<u>258,558</u>	<u>262,300</u>
Total non-restricted equity		<u>644,397</u>	<u>385,839</u>
Total equity		<u>697,170</u>	<u>438,612</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		22,441	13,309
Current tax liabilities	6	15,347	46,239
Other current liabilities		838	299
Accrued expenses and deferred income	10	<u>9,940,711</u>	<u>7,959,376</u>
Total current liabilities		<u>9,979,337</u>	<u>8,019,223</u>
Total equity and liabilities		<u>853,473,168</u>	<u>851,254,496</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 2017-01-01		52,773	-	385,839	438,612
Net profit for the year		=	=	<u>258,558</u>	<u>258,558</u>
Equity 2017-12-31		52,773	-	644,397	697,170

Cash flow statement	2017	2016
Operating activities		
Profit after financial items	331,496	336,493
Adjustment for non-cash items	-98,416	-1,543,800
Income tax paid	<u>-103,830</u>	<u>-46,034</u>
Cash flow from operating activities before changes in working capital	129,250	-1,253,341
Increase/decrease in other current receivables	-5,625	1,004
Increase/decrease in other current operating liabilities	<u>9,670</u>	<u>-297,682</u>
Cash flow from operating activities	133,295	-1,550,019
Investing activities		
Loans given to parent company	=	=
Cash flow from investing activities	0	0
Financing activities		
Bonds issued	=	=
Cash flow from financing activities	0	0
Cash and cash equivalents at beginning of the year	214,303	1,764,322
Cash flow for the year	<u>133,295</u>	<u>-1,550,019</u>
Cash and cash equivalents at the end of the year	<u>374,598</u>	<u>214,303</u>
Notes to cash flow statement		
Adjustment for non-cash items		
Accrued expenses and deferred income	1,981,335	1,988,622
Accrued interest income, parent company	<u>-2,079,751</u>	<u>-3,532,422</u>
Net non-cash items	-98,416	-1,543,800

During the financial year the Company has received interest from the parent company to an amount of EUR 10,046,130. 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, 2017 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:

	2017-12-31 EUR	2016-12-31 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
2017-12-31 Liabilities to bondholders		11,687,500	861,687,500	-	873,375,000
Account payable – trade	22,441	-	-	-	22,441
Other current liabilities	841	-	-	-	841
Total	23,282	11,687,500	861,687,500	-	873,398,282

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2017-12-31 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

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's exposure to credit risk relates only to loans granted 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:

	2017-12-31 EUR	2016-12-31 EUR
Receivables from parent company	841,320,000	841,320,000
Cash and cash balances	<u>347,598</u>	<u>214,303</u>
	841,667,598	841,534,303

The Company's cash is placed at CitiBank London Branch, UK.

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

	<u>2017</u>	<u>2016</u>
<u>KPMG AB</u>		
Audit fees	<u>7,192</u>	<u>8,755</u>
Total	<u>7,192</u>	<u>8,755</u>

Note 4 Personnel expenses

	<u>2017</u>	<u>2016</u>
Wages, salaries, social security and pension costs		
Wages and salaries	4,240	5,753
Compulsory social security contributions	1,321	1,892
Other personnel costs	<u>233</u>	<u>220</u>
Total	<u>5,794</u>	<u>7,865</u>

Number of employees, etc

Women	1	1
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

	<u>2017</u>	<u>2016</u>
Interest income	14,125,873	14,118,692
Ex-change rate changes	-5	-528
Total	<u>14,125,868</u>	<u>14,118,164</u>

Note 6 Tax on profit for the year

	<u>2017</u>	<u>2016</u>
Tax on profit for the year	<u>72,938</u>	<u>74,193</u>
Total	<u>72,938</u>	<u>74,193</u>

	%	2017	2016
Result before tax		331,496	336,493
Tax rate 22%	22%	72,923	74,028
Non-deductible costs		9	165
Tax on profit for the year	22%	72,938	74,193

Note 7 Financial assets and liabilities specified by category

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Book value		
Loan to parent company	841,320,000	841,320,000
Prepaid expenses and accrued income	11,805,569	9,720,193
Cash and cash equivalents	347,598	214,303
Total	853,473,167	851,254,496

<u>Assets</u>		
Fair value		
Loan to parent company	872,623,116	870,667,861
Prepaid expenses and accrued income	11,805,569	9,720,194
Cash and cash equivalents	347,598	214,303
Total	884,776,283	880,602,357

<u>Liabilities</u>	<u>2017</u>	<u>2016</u>
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Book value

Bonds issued	842,796,661	842,796,661
Account payable - trade	22,441	13,309
Current tax liabilities	15,347	46,239
Accrued expenses and deferred income	9,940,711	7,959,376
Other current liabilities	838	299
Total	852,775,998	850,815,884

Liabilities

Fair value

Bonds issued	871,674,660	869,261,765
Account payable - trade	22,441	13,309
Current tax liabilities	15,347	46,239
Accrued expenses and deferred income	9,940,711	7,959,376
Other current liabilities	838	299
Total	881,653,997	877,280,988

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>2017</u>	<u>2016</u>
Disclosure regarding the parent company		
The company is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, reg. no KRS 0000009831 domiciled in Warsaw, Poland.		
Receivables with parent company		
Powszechny Zakład Ubezpieczeń SA	841,320,000	841,320,000
Accrued interest income	<u>11,795,570</u>	<u>9,715,819</u>
Total	853,115,570	851,035,819
The receivable bear an interest of 1,425%.		

	<u>2017</u>	<u>2016</u>
Income and costs regarding parent company		
Interest income, parent company	-14,125,873	14,118,692
Total	<u>-14,125,873</u>	<u>14,118,692</u>

Note 9 Prepaid expenses and accrued income

	<u>2017-12-31</u>	<u>2016-12-31</u>
Accrued interest income	11,795,570	9,715,819
Other items	9,999	4,374
Total	<u>11,805,569</u>	<u>9,720,193</u>

Note 10 Accrued expenses and deferred income

	<u>2017-12-31</u>	<u>2016-12-31</u>
Accrued interest expenses	9,934,461	7,953,126
Accrued audit fees	6,250	6,250
Total	<u>9,940,711</u>	<u>7,959,376</u>

Note 11 Contingent liabilities

	<u>2017-12-31</u>	<u>2016-12-31</u>
Contingent liability	7,486,226	2,236,201
Total	<u>7,486,226</u>	<u>2,236,201</u>

The presented amount corresponds to the estimated deferred tax on capital gains as a result of any currency effects on future disposal of the receivable. The capital gain has been calculated on the basis of the exchange rate at closing date compared with the exchange rate at acquisition of the receivable. The receivable is wholly towards the parent company. The company does not intend to realize the receivables as long a taxable capital gain arises because of the exchange rate. Due to the fact that the future development of exchange rates controls a potential tax effect, information about this effect has been provided as contingent liability, as it is unlikely that the tax liability will be realized. Due to this, the parent company has also issued a capital deficit guarantee to the company as per 31 December 2017.

Stockholm 2018-05-

Agnieszka Karbowskiak
Chairman

Mariusz Porebski
Board member

Iren Falsafi
CEO

Our audit report has been issued 2018-05-

KPMG AB

Mårten Asplund
Authorized public accountant