



**The KRUK Group**  
**Consolidated financial statements**  
**for the year ended December 31st 2016**  
Prepared in accordance with the International Financial  
Reporting Standards  
as endorsed by the European Union

**The KRUK Group**  
**December 31st 2016**

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## Consolidated financial statements

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## Consolidated statement of financial position

As at December 31st 2016

PLN '000

	Note	Dec 31 2016	Dec 31 2015
<b>Assets</b>			
Cash and cash equivalents	21	267,384	140,742
Trade receivables	20	13,452	8,391
Investments	17	2,676,202	1,620,579
Other receivables	20	28,145	26,719
Inventories	19	485	587
Property, plant and equipment	14	27,473	19,957
Other intangible assets	15	14,293	11,805
Goodwill	16	62,604	1,024
Deferred tax asset	18	-	2,841
Other assets		5,658	3,469
<b>Total assets</b>		<b>3 095 697</b>	<b>1,836,115</b>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
Hedge derivatives		-	589
Trade and other payables	28	169,248	83,555
Employee benefit obligations	26	34,396	29,239
Current tax liability		4,079	3,178
Liabilities under borrowings and other debt instruments	25	1,646,411	935,011
Deferred tax liability	18	4,057	-
Provisions	27	-	264
<b>Total liabilities</b>		<b>1,858,191</b>	<b>1,051,836</b>
<b>Equity</b>			
Share capital	23	18,744	17,398
Share premium		288,326	64,382
Exchange differences on translating foreign operations		(592)	(7,674)
Other capital reserves		76,658	68,956
Retained earnings		854,354	641,182
<b>Equity attributable to owners of the Parent</b>		<b>1,237,490</b>	<b>784,244</b>
<b>Non-controlling interests</b>		<b>14</b>	<b>34</b>
<b>Total equity</b>		<b>1,237,504</b>	<b>784,278</b>
<b>Total equity and liabilities</b>		<b>3,095,697</b>	<b>1,836,115</b>

The consolidated statement of financial position should be read in conjunction with the notes to these consolidated financial statements, which form their integral part.

## Consolidated statement of profit or loss

### For the year ended December 31st 2016

PLN '000

	<i>Note</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Revenue	6	783,398	611,234
Other income	7	8,773	2,589
		<u>792,171</u>	<u>613 823</u>
Employee benefits expense	10	(190,778)	(169,432)
Depreciation and amortisation expense	14,15	(13,538)	(10,540)
Contracted services	8	(79,415)	(48,344)
Other expenses	9	(159,417)	(134,128)
		<u>(443,148)</u>	<u>(362 444)</u>
<b>EBIT</b>		349,023	251,379
Finance income	11	363	2,792
Finance costs	11	(63,038)	(44,394)
<b>Net finance costs</b>		<u>(62,675)</u>	<u>(41,602)</u>
<b>Profit before tax</b>		286,348	209,777
Income tax	12	(37,671)	(5,516)
<b>Net profit for period</b>		<u>248,677</u>	<u>204,261</u>
<b>Net profit attributable to:</b>			
Owners of the Parent		248,663	204,227
Non-controlling interests		14	34
<b>Net profit for period</b>		<u>248,677</u>	<u>204,261</u>
<b>Earnings/(loss) per share</b>			
Basic (PLN)	23	14.08	11.84
Diluted (PLN)	23	13.55	11.48

The consolidated statement of profit or loss should be read in conjunction with the notes to these consolidated financial statements, which form their integral part.

## Consolidated statement of comprehensive income

### For the year ended December 31st 2015

PLN '000

	<i>Note</i>	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
<b>Net profit for period</b>		248,677	204,261
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translating foreign operations	11	7,082	(3,815)
Cash flow hedges		-	-
Income tax on other comprehensive income		-	-
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Income tax on other comprehensive income		-	-
<b>Other comprehensive income, net, for period</b>		7,082	(3,815)
<b>Total comprehensive income for period</b>		255,759	200,446
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		255,745	200,412
Non-controlling interests		14	34
<b>Total comprehensive income for period</b>		255,759	200,446
<b>Comprehensive income/(loss) per share</b>			
Basic (PLN)		14.48	11.62
Diluted (PLN)		13.93	11.27

The consolidated statement of comprehensive income should be read in conjunction with the notes to these consolidated financial statements, which form their integral part.

## Consolidated statement of changes in equity

For financial year ended December 31st 2016 (PLN '000)

Note	Share capital	Share premium	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
<b>Equity as at Jan 1 2015</b>	17,110	53,249	(3,859)	55,624	462,893	585,017	66	585,083
<b>Comprehensive income for period</b>								
Net profit for period	-	-	-	-	204,227	204,227	34	204,261
<b>Other comprehensive income</b>								
- Exchange differences on translating foreign operations	-	-	(3,815)	-	-	(3,815)	-	(3,815)
<b>Total other comprehensive income</b>	-	-	(3,815)	-	-	(3,815)	-	(3,815)
<b>Total comprehensive income for period</b>	-	-	(3,815)	-	204,227	200,412	34	200,446
<b>Contributions from and distributions to owners</b>								
- Payment of dividends	-	-	-	-	(25,938)	(25,938)	(66)	(26,004)
- Issue of shares	288	11,133	-	-	-	11,421	-	11,421
- Share-based payments	-	-	-	13,332	-	13,332	-	13,332
<b>Total contributions from and distributions to owners</b>	288	11,133	-	13,332	(25,938)	(1,185)	34	(1,251)
<b>Total equity as at Dec 31 2015</b>	17,398	64,382	(7,674)	68,956	641,182	784,244	34	784,278
<b>Equity as at Jan 1 2016</b>	17,398	64,382	(7,674)	68,956	641,182	784,244	34	784,278
<b>Comprehensive income for period</b>								
Net profit for period	-	-	-	-	248,663	248,663	14	248,677
<b>Other comprehensive income</b>								
- Exchange differences on translating foreign operations	-	-	7,082	-	-	7,082	-	7,082
<b>Total other comprehensive income</b>	-	-	7,082	-	-	7,082	-	7,082
<b>Total comprehensive income for period</b>	-	-	7,082	-	248,663	255,745	14	255,759
<b>Contributions from and distributions to owners</b>								
- Payment of dividends	22	-	-	-	(35,491)	(35,491)	(34)	(35,525)
- Issue of shares	22	1,346	223,944	-	-	225,290	-	225,290
- Share-based payments	-	-	-	7,702	-	7,702	-	7,702
<b>Total contributions from and distributions to owners</b>	1,346	223,944	-	7,702	(35,491)	197,501	(34)	197,467
<b>Total equity as at Dec 31 2016</b>	18,744	288,326	(592)	76,658	854,354	1,237,490	14	1,237,504

The consolidated statement of changes in equity should be read in conjunction with the notes to these consolidated financial statements, which form their integral part.

## Consolidated statement of cash flows

For the year ended December 31st 2016

PLN '000

	Note	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
<b>Cash flows from operating activities</b>			
<b>Net profit for period</b>		248,677	204,261
<i>Adjustments</i>			
Depreciation of property, plant and equipment	14	8,401	6,246
Amortisation of intangible assets	15	5,137	4,294
Net finance costs		67,354	40,573
(Gain)/loss on sale of property, plant and equipment		(306)	(68)
Equity-settled share-based payments		7,702	13,332
Income tax		37,671	5,516
Change in other investments	17	(6,463)	(8,532)
Change in debt and real estate portfolios purchased	17	(1,040,732)	(236,609)
Change in inventories		102	(63)
Change in receivables		(6,487)	(7,627)
Change in other assets		(2,189)	(1,399)
Change in trade and other payables		60,989	22,942
Change in employee benefit obligations		5,157	1,593
Change in provisions		(264)	-
Cash flows from operating activities of newly acquired companies		(1,534)	-
Income tax paid		(6,346)	(3,364)
<b>Net cash from operating activities</b>		(623,132)	41,095
<b>Cash flows from investing activities</b>			
Interest received		363	342
Sale of intangible assets and property, plant and equipment		1,003	173
Acquisition of shares		(60,046)	-
Purchase of intangible assets and property, plant and equipment		(15,363)	(8,336)
<b>Net cash from investing activities</b>		(74,043)	(7,821)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of shares		223,944	11,421
Proceeds from issue of debt securities		832,868	243,360
Increase in borrowings		1,557,330	742,115
Repayment of borrowings		(1,526,613)	(844,174)
Payments under finance lease agreements		(5,790)	(4,512)
Payment of dividends	23	(35,525)	(26,004)
Redemption of debt securities		(154,000)	(41,000)
Interest paid		(68,398)	(44,284)
<b>Net cash from financing activities</b>		823,816	36,923
Total net cash flows		126,642	70,197
Cash and cash equivalents at beginning of period		140,742	70,545
Cash and cash equivalents at end of period	21	267,384	140,742

The consolidated statement of cash flows should be read in conjunction with the notes to these consolidated financial statements, which form their integral part.

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## 1. Parent

*Name:*

KRUK Spółka Akcyjna ("KRUK S.A." or "Parent")

*Registered office:*

ul. Wołowska 8  
51-116 Wrocław, Poland

*Registration in the National Court Register*

District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland

Date of entry: September 7th 2005

Entry number: KRS 0000240829

*Principal business activities of the Parent and subsidiaries*

The principal business activities of the Parent and its subsidiaries consist in the restructuring and recovery of debts purchased by the Group companies and the provision of outsourced debt collection services to financial institutions and other clients.

On October 31st 2016, the Parent sold its consumer loan portfolio to subsidiaries Novum Finance Sp. z o.o. and Presco NS FIZ. The main business reason for the transfer was the planned launch of consumer lending also to external clients, i.e. persons who have never been KRUK S.A.'s clients. As of the date of the aforementioned agreement, cash loans have been advanced by Novum Finance Sp. z o.o.

Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. (RD ERIF BIG S.A.), a subsidiary of Kruk S.A., is a credit reference agency which stores, manages and provides credit information on consumers and businesses.

These consolidated financial statements for the reporting period ended December 31st 2016 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

KRUK S.A. is the Parent of the Group. The list of subsidiaries is presented below.

PLN '000	Country	Shareholdings (%)	
		Dec 31 2016	Dec 31 2015
SeCapital S.à r.l. *	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
SeCapital Polska Sp. z o.o.	Poland	100%	100%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	100%	100%
InvestCapital Malta Ltd *	Malta	100%	100%
RoCapital IFN S.A.*	Romania	100%	100%
Kruk Deustschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l.	Luxembourg	100%	100%
Presco Investments S.a.r.l.*	Luxembourg	100%	-
Presco Investments I NS FIZ*	Poland	100%	-
Credit Base International S.r.l	Italy	100%	-
Elleffe Capital S.r.l.*	Italy	100%	-
Espand Soluciones de Gestion S.L.	Spain	100%	-

\* Subsidiaries in which the Company indirectly holds 100% of the share capital.

## 2. Preparation of consolidated financial statements

### 2.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union (the "EU-IFRS").

Some of the Group companies keep their accounts in accordance with the accounting policies defined in the Polish Accountancy Act of September 29th 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards"), and other local standards. In these consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRS, which are not disclosed in their own books of account.

These consolidated financial statements were authorised for issue by the Management Board of the Parent (the "Management Board") on February 27th 2017.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies' continuing as going concerns, with the exception of ProsperoCapital Sp. z o.o. w likwidacji (in liquidation).

## 2.2. Basis of preparation

These consolidated financial statements have been prepared for the reporting period from January 1st to December 31st 2016. The comparative data has been presented as at December 31st 2015 and for the period from January 1st 2015 to December 31st 2015.

These consolidated financial statements have been prepared on the historical cost basis, except with respect to the following significant items of the statement of financial position:

- financial instruments at fair value through profit or loss

The methods of measuring fair value are presented in Note 3.3.3.3

## 2.3. Functional currency and presentation currency

The data contained in these consolidated financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand. The Polish złoty is the functional currency of the Parent.

## 2.4. Accounting estimates and judgements

In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to rely on judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised.

Information on judgements concerning the application of accounting policies which most significantly affect the amounts presented in the financial statements:

Item	Amount estimated		Note No.	Assumptions and estimate calculation
	2015 (PLN '000)	2016 (PLN '000)		
Goodwill	1,024	62,604	3.6.1 3.9.2	Goodwill impairment is estimated based on the expected cash flows to be derived from a cash-generating unit. No goodwill impairment was recognised in the period under analysis.
Investments	1,620,579	2,676,202	3.3.1	The value of a purchased debt portfolio as at the measurement date is determined on the basis of reliably estimated value, calculated using an estimation model relying on expected discounted cash flows.  The expected cash flows can be estimated with the use of comparative and statistical methods (statistical analysis), behavioural methods or based on the legal and economic analysis of individual claims or debtors (case-by-case analysis). The method for estimating cash flows under a debt portfolio is selected based on the available profiles of individual debtors and claims, as well as historical data collected in the course of managing the

portfolio.

The Kruk Group prepares projections for recoveries from debt portfolios independently for individual markets. The projections, among other things, account for: historical debtor behaviour, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.

Kruk Group regularly verifies the amount of collection costs, which affect the valuation of debt according to the fair value method. Changes in market costs are recognized in profit this year.

Deferred tax assets	18	The KRUK Group determines deferred tax assets as the amount of income tax recoverable in the future in connection with deductible temporary differences, which will reduce future taxable profit, and any deductible tax loss, determined in accordance with the prudence principle.
Deferred tax liabilities	18	The KRUK Group recognises deferred tax liabilities at amounts of income tax payable in future in connection with taxable temporary differences, i.e. differences which will increase future taxable profit.

### 3. Significant accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in the consolidated financial statements.

#### 3.1. Basis of consolidation

##### 3.1.1. Business combinations

Business combinations, including combination of closed-end investment funds, are accounted for with the acquisition method as at the acquisition date, which is the date on which the Group assumes control over the acquired entity.

The Parent is deemed to exercise control when it:

- exercises power over the investee,
- is exposed or has rights to variable returns from its involvement with the investee,
- has the ability to use its power over the investee to affect the amount of its returns. The Group recognises goodwill as fair value of the payment made, including the recognised value of non-controlling interest in the acquiree, less net value of the identifiable assets acquired and liabilities assumed as at the date of acquisition at fair value.

The payment made includes fair value of the transferred assets, liabilities incurred by the Group towards the previous owners of the acquired entity, and shares issued by the Group. The payment made also includes fair value of a partial conditional payment, as well as fair value of the acquirer's replacement share-based payment awards, as replacement is obligatory at business combinations. If, on account of a business combination, previous liabilities between the Group and the acquiree expire, the value of payment is decreased by the lower of the following amounts: the contractual price for the expiration of liability or the value of the out-of-market component, and recognised as other costs.

Fair value of patents and trademarks acquired as a result of a business combination is determined based on estimated discounted payments of royalties that were not incurred as a result of the acquisition of the ownership title to the patent or trade mark. Fair value of client relationships acquired as a result of business combinations is determined using the multi-period excess of earnings method under which the value of an asset is measured, net of any reliably determined return on all other assets participating in the creation of related cash flows.

Fair value of other intangible assets is based on the discounted cash flows expected from the use or any disposal of such assets.

Fair value of property, plant and equipment acquired as a result of a business combination is based on the market value of such property, plant and equipment. The market value of real property is the estimated amount for which, as at the valuation date of the real property, it could be exchanged between knowledgeable and willing parties in an arm's length transaction executed after appropriate marketing activities have been conducted. Fair value of other items of property, plant and equipment is determined using the market approach and cost methods which are based on market quoted prices for similar assets, if available, and, in justified cases, on replacement costs.

Conditional liabilities of the acquiree are accounted for in a business combination only where such liability is currently payable, results from past events, and its fair value may be estimated in a reliable manner.

The Group measures all non-controlling interests in proportion to the interests in identifiable net assets of the acquiree.

Any transaction costs incurred in relation to a business combination, such as legal fees, costs of due diligence and other professional services, are recognised as costs for the period in which they are incurred.

### 3.1.2. Subsidiaries

Subsidiaries are entities controlled by the Parent, including investment funds. Financial statements of subsidiaries are consolidated from the date of assuming control over subsidiaries to the date on which such control ceases to exist. The accounting policies applied by Subsidiaries are uniform with the policies applied by the Group.

### 3.1.3. Consolidation adjustments

Balances of settlements between the Group's entities, transactions concluded within the Group and any resulting unrealised gains or losses, as well as revenues and costs of the Group are eliminated at consolidation. Unrealised losses are eliminated from the consolidated financial statements according to the same rule as unrealised gains, however, only if no impairment indications exist.

## 3.2. Foreign currencies

### 3.2.1. Foreign currency transactions

Transactions denominated in foreign currencies as at the transaction date are recognised in the functional currencies of the Group's entities, at buy or sell rates quoted as at the transaction date by the bank whose services a given entity uses.

Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the central bank for that date. Exchange differences on valuation of assets and financial liabilities as at the end of the reporting period are the differences between the value at amortised cost in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the relevant mid exchange rate quoted by the central bank for the end of the reporting period.

Non-monetary items of foreign currency assets and liabilities valued at historical cost are translated at the relevant mid exchange rate quoted by the central bank for the transaction date.

Non-monetary items of foreign currency assets and liabilities valued at fair value are translated at the relevant mid exchange rate quoted by the central bank for the date of fair value measurement.

Exchange differences on translation into the functional currency are recognised in profit or loss for the given period.

### 3.2.2. Translation of foreign operations

Assets and liabilities of foreign entities, including goodwill and consolidation adjustments to the fair value as at the acquisition date, are translated at the mid-rate quoted by the National Bank of Poland at the end of the reporting period.

Any currency-translation differences (translation reserve) are recognised as other comprehensive income. In the event of disposal of a foreign entity, in whole or in part, relevant amounts recognised in equity are charged to profit or loss for the period.

Any exchange differences on monetary items in the form of receivables from or liabilities towards a foreign entity which are not planned or probable to be settled in foreseeable future, are a part of net investment in the entity operating abroad, and recognised in other comprehensive income and presented in the equity as exchange differences on translation.

### 3.3. Financial instruments

#### 3.3.1. Financial assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

##### *Financial assets held to maturity*

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market and that the Group has the positive intention and ability to hold to maturity, other than:

- those that are designated as at fair value through profit or loss upon initial recognition,
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method.

Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting date.

##### *Financial assets at fair value through profit or loss*

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) it is classified as held for trading. A financial asset is classified as held for trading if:
  - it is acquired principally for the purpose of selling it in the near future,
  - it is part of a portfolio of identified financial instruments that are managed together and for which there is the probability of short-term profit-taking,
  - it is a derivative (except for a derivative that is a financial guarantee contract or a hedging instrument),
- b) it is designated as such upon initial recognition in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value at the reporting date, less cost to sell. Any changes in the value of such instruments are recognised in the statement of profit or loss/statement of comprehensive income as finance income (net fair value gain) or costs (net fair value loss). If a contract contains one or more embedded derivatives, the entire hybrid contract can be designated as a financial asset at fair value through profit or loss, unless the embedded derivative does not significantly modify the contractual cash flows or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited.

A financial asset may be designated as a financial asset at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or (ii) the asset is part of a group of financial assets that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the asset contains embedded derivatives which should be presented separately.



### Purchased debt portfolios

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under claim assignment agreements. Prices paid by the Group for such debt portfolios are significantly lower than their nominal value. The Group classifies debt portfolios purchased prior to January 1st 2014 as financial assets at fair value through profit or loss because they were designated as such on initial recognition in accordance with IAS 39.

Purchased debt portfolios are initially recognised at acquisition price, which is equal to their fair value. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period.

The Group measures debt portfolios purchased prior to January 1st 2014 at least four times in an annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio as at the measurement date is determined on the basis of reliably estimated fair value, calculated using an estimation model relying on expected discounted cash flows, including recoveries and collection costs at market rates.

Fair value of debt portfolios purchased is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio.

Discount rates applied to expected cash flows reflect the credit risk relating to a given portfolio. Credit risk is assessed with respect to cash flows from an entire portfolio, rather than to cash flows generated by individual debtors. At initial recognition, the discount rate is the expected internal rate of return reflecting the purchase price and the estimated cash flows, determined as at the portfolio purchase date. As at each measurement date, the Group verifies the adopted discount rates to ensure that they reflect the then current risk-free rate and risk premium relating to credit risk of a given portfolio.

The estimated cash flows are primarily based on:

- expected recovery rates from the collection tools used,
- extent to which the collection tools are used with respect to individual portfolios (existing and planned),
- repayment history.

When determining the cash flow timing, the Group takes into account the expected time when the cash flows resulting from the use of individual collection tools arise. The expected period in which proceeds from collection of debts in a given portfolio will be obtained is based on relevant historical data.

Estimated cash flows from debt portfolios are divided into principal recoveries and interest determined at the discount rate. Recovered principal is recognised as a reduction of carrying amount of the debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. These amounts are disclosed as operating income, because the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.

Revaluation of purchased debt portfolios is defined as a change in their fair value caused by interest rate fluctuations and/or change of estimates concerning future cash flows. Any differences between the actual and forecast recoveries are presented as revenue and recognised under interest income adjusted for actual recoveries.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

Loans and receivables include loans advanced, trade receivables and debt portfolios purchased on or after January 1st 2014.

#### Purchased debt portfolios

As of January 1st 2014, all purchased debt portfolios are classified as loans and receivables, to better reflect the portfolio management strategy focused on maximising recoveries.

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost equal to the fair value of the consideration transferred increased by any material transaction costs.

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the initial value (acquisition price plus transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate calculated as specified above, and is recognised in profit or loss of the current period. All interest income is recognised as an increase in the portfolio value. The actual cash flows received from collections during the period are recognised as a decrease in the portfolio value.

The value of an asset as at the reporting date is its initial value (acquisition price plus transaction costs) increased by interest income, decreased by actual cash flows and adjusted to reflect any updates (changes) to cash flow estimates. Consequently, the value of an asset as at the reporting date is equal to the discounted estimated cash flows relating to the asset.

Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash flows for the portfolio are disclosed as revenue earned in a given period.

#### Novum loans

As part of the Novum business line, consumer loans of up to PLN 7,500 were granted for periods from 3 to 24 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market.

The NOVUM portfolio loans are classified into four categories depending on the period of delinquency.

- in each valuation month, the NOVUM portfolio is classified into the following four categories:

[0-30 DPD]; [31-60 DPD]; [61<=DPD]; [terminated loans]

where DPD means the number of days after the due date of the instalment;

- the aggregate fair value of all the categories represents the fair value of the entire portfolio:

$$\text{Fair value of portfolio} = \sum_i^4 \text{Fair value}_i$$

where:

- i: category number,

- fair value: NPV of future cash flows from the loan portfolio calculated based on the repayment schedule;

- in each valuation month, loss ratios for each category are calculated (loss ratio in a given category is calculated based on historical data on balances due and repayments made by the borrowers);

- impairment loss in a valuation month represents the aggregate impairment losses in all the categories, calculated according to the existing formula:

$$\text{Impairment loss}(T) = \sum_i^4 \text{Impairment loss}(T)_i = \sum_i^4 \text{Fair value}(T)_i * \text{Loss ratio}(T)_i$$

Impairment loss for a given valuation month amounts to the difference between the impairment loss for the current and for the previous valuation month.

#### *Financial assets available for sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the three asset categories specified above. Financial assets available for sale are recognised at fair value plus transaction costs directly attributable to the acquisition or issue of a given asset. Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of deferred tax, are recognised in other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment is recorded as finance cost.

Purchase and sale of financial assets are recognised at the transaction date. Initially, a financial asset is recognised at its fair value, plus, for financial assets other than classified as financial assets at fair value through profit and loss, transaction costs which are directly attributable to the purchase.

Financial assets are derecognised from the statement of financial position if the Group loses control of contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

### 3.3.2. Financial liabilities other than derivative instruments

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of a financial instrument.

The Group recognises a financial liability when the liability has been repaid, written off or is time barred.

Financial assets and liabilities are set off against each other and disclosed at net amounts in the statement of financial position only if the Group holds a legally valid title to set off specified financial assets and liabilities and if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

The Group classifies financial liabilities other than derivative instruments as other financial liabilities. Such liabilities are initially recognised at fair value plus directly attributable transaction cost. Following initial recognition, such liabilities are measured at amortised cost with the use of the effective interest rate.

Fair value estimated for the purpose of disclosure is calculated based on the present value of future cash flows from repayment of principal and payment of interest, discounted using the market interest rate effective as at the end of the reporting period. For finance lease liabilities, the market interest rate is determined with reference to similar lease agreements. Liabilities with short maturities and liabilities for which interest rates are adjusted for changes in base rates on an on-going basis are not discounted because their carrying amount is approximately equal to their fair value.

The Group holds the following financial liabilities: borrowings, liabilities under debt securities, and trade and other payables.

The Group presents liabilities related to purchased debt portfolios under trade payables.

### 3.3.3. Derivative instruments and hedge accounting

The Group buys derivative instruments in order to hedge its cash flows against interest rate risk.

Derivative instruments are initially recognised at fair value. Total costs and expenses relating to transactions are recognised in profit or loss of the period.

The effect of fair value measurement of an instrument is recognised directly in profit or loss.

## 3.4. Property, plant and equipment

### 3.4.1. Recognition and measurement

Items of property, plant and equipment are recognised at cost, less depreciation charges and impairment losses.

Acquisition cost comprises the price for which a given asset was purchased and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage, as well as direct remuneration (in the event of an item of property, plant and equipment produced internally). Rebates, discounts and other similar concessions and returns reduce the asset acquisition cost. Production cost of property, plant and equipment and property, plant and equipment under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date). Production cost also comprises preliminary estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if

such estimation is required. Purchased software, necessary for the proper operation of related equipment, is capitalised as a part of this equipment.

Borrowing costs related to the acquisition or production of certain assets increase their acquisition or production cost.

If a specific item of property, plant and equipment consists of separate and material components with different economic useful lives, such components are treated as separate assets.

Gain or loss on disposal of an item of property, plant and equipment is estimated as a difference between the disposal proceeds, and is recognised in current period's profit or loss under other income and expenses.

### 3.4.2. Subsequent expenditure

The Group companies capitalise future expenditure on replacement of an item of property, plant and equipment, if such expenditure may be reliably estimated and if the Group is likely to derive economic benefits from such replacement. Present value of the removed items of property, plant and equipment is derecognised. Expenditure related to the maintenance of items of property, plant and equipment is recognised as current period's profit or loss at the time it is incurred.

### 3.4.3. Depreciation and amortisation expense

The level of depreciation charges is determined based on acquisition or production cost of a certain asset, less its residual value.

Depreciation cost is recognised in the current period's profit or loss, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Assets used under finance lease agreements or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Group is certain that it obtains ownership before the end of the lease. Land is not depreciated.

The Group has adopted the following length of useful lives for particular categories of property, plant and equipment:

Buildings (investments in third-party facilities)	10-40 years
Plant and equipment	3-10 years
Vehicles	4-5 years

The reliability of applied useful economic lives, depreciation methods and residual values of property, plant and equipment is reviewed at the end of each reporting period and adjusted in justified cases.

## 3.5. Investment property

As part of collection of purchased debt, the Group forecloses property on the basis of final court rulings and applies it towards debt repayment. Investment property is initially measured at cost, including transaction costs. Following the initial recognition, investment property is disclosed at fair value. Gains or losses relating to changes in the fair value of investment property are recognised in profit or loss of the period. Fair value measurement of such property is performed once a year by a certified internal appraiser.

Investment property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the selling price is recognised in profit or loss of the period.

## 3.6. Intangible assets

### 3.6.1. Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill valuation methods at the time of its initial recognition are described in Note 3.1.1.

#### *Measurement after the initial recognition*

Following the initial recognition, goodwill is recognised at acquisition cost, less cumulative impairment losses.

Goodwill is not amortised. As at the end of each reporting period, goodwill is tested for impairment. For estimates and judgements used to determine impairment losses, see Section 3.9.2.

### 3.6.2. Other intangible assets

Other acquired or internally produced intangible assets with finite useful economic lives are recognised at cost, less amortisation charges and impairment losses.

The Group recognises development expenses under intangible assets. Costs of research and development work for own needs incurred prior to the application of a new technology are recognised as assets if the following conditions are met:

- the production programme or technology are precisely defined, and development expenses to be incurred in connection with them are reliably estimated;
- the technical feasibility of the programme or technology has been demonstrated and appropriately documented, and based on this the entity resolved to manufacture the products or use the technology;
- development expenses are expected to be covered with income from the application of such programmes or technologies.

### 3.6.3. Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure, including internally generated trademarks, goodwill and brand is recognised in the current period's profit or loss at the moment in which it is incurred.

### 3.6.4. Depreciation and amortisation expense

The level of amortisation charges is determined based on acquisition or production cost of a certain asset, less residual value.

Amortisation cost is recognised in the current period's profit or loss on the straight-line basis with respect of the estimated useful life of a certain intangible asset, other than goodwill, from the moment it is put into service. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

The Group has adopted the following length of useful lives for particular categories of intangible assets:

Software	5 years
Research and development work	1-5 years

The reliability of applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed at the end of each reporting period and adjusted in justified cases.

### 3.6.5. Property, plant and equipment used under lease agreements

Lease agreements under which the Group assumes substantially all the risks and benefits resulting from the ownership of the property, plant and equipment are classified as finance lease agreements. Assets acquired under finance lease agreements are initially recognised at the lower of their fair value or present value of the minimum lease payments, less any depreciation charges and impairment losses.

Lease agreements which are not finance lease agreements are treated as operating lease and not recognised in the statement of financial position.

## 3.7. Investments

Investments include:

- Purchased debt portfolios measured at fair value through profit or loss; for rules to be followed in the valuation of such portfolios, see Section 3.3.1;
- Debt portfolios measured at amortised cost; for rules to be followed in the valuation of such portfolios, see Sections 3.3.1 and 3.9.1;
- Investment property; for rules to be followed in the valuation of investment property, see Section 3.5;
- Loans advanced; for rules to be followed in the valuation of loans advanced, see Sections 3.3.1 and 3.9.1.

## 3.8. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks, as well as short-term deposits with original maturities of up to three months. Cash is disclosed in nominal amounts. In the case of cash in bank accounts, its nominal amount as at the reporting date includes accrued interest.

## 3.9. Impairment losses on assets

### 3.9.1. Financial assets

At the end of each reporting period, financial assets other than measured at fair value through profit and loss are tested for impairment based on objective criteria. A particular financial asset is deemed to be impaired if, after its initial recognition, any objective criteria indicating the occurrence of an event causing impairment, which might have a reliably estimated negative impact on projected cash flows related to that asset, have been met.

Such objective criteria of impairment of financial assets include default or delay in payment by a debtor; debt restructuring approved by the Group for economic or legal reasons resulting from the debtor's poor financial condition, which the Group would not otherwise have approved of; circumstances indicating that the debtor or issuer is likely to go bankrupt; disappearance of an active market for a particular financial asset.

The Group tests for impairment each individual asset of receivables or financial instruments held to maturity.

In impairment testing, the Group uses historical trends to assess the probability of default, the payment dates and the losses incurred, adjusted by the Management Board's estimates indicating whether the current economic and credit conditions show any signs of future significant differences between the actual losses to be incurred and the projections based on the review of historical trends.

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount and the present value of projected cash flows discounted at the original effective interest rate. Any losses are recognised in profit or loss for the period and reduce the current value of financial assets; the Group continues to charge interest on impaired assets. If any subsequent circumstances indicate

that the criteria for impairment losses have ceased to be met, reversal of impairment losses is recognised in profit or loss for the current period.

### 3.9.2. Non-financial assets

Carrying amount of non-financial assets other than inventories and deferred tax assets is tested for impairment as at the end of each reporting period. If any criteria of impairment are met, the Group estimates the recoverable amount of particular assets. The recoverable amount of goodwill, intangible assets with infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year.

The recoverable amount of assets or cash-generating units is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted at a pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped up to the smallest distinguishable units which generate cash largely independently from other assets or units of assets.

The Group tests the recognised goodwill for impairment by grouping cash-generating units so that the organisational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organisational level at which the Group monitors goodwill for its own purposes.

For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination.

The Group's corporate (joint) assets do not generate separate cash inflows. If any criteria of impairment of corporate assets are met, the recoverable amount is assessed for the cash-generating units to which those assets belong.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit is higher than its recoverable amount. Impairment losses are recognised in profit or loss for the period. Impairment of a cash-generating unit is first recognised as impairment on goodwill allocated to that unit (group of units), and subsequently as impairment of carrying amount of other assets of that unit (group of units) on pro-rata basis.

Goodwill impairment losses are irreversible. Impairment losses on other assets, recognised in previous periods, are reviewed for reduction or reversal at the end of each reporting period. Impairment losses are reversible if the estimates applied to the assessment of the recoverable amount have changed. An impairment loss is reversible only up to the initial value of an asset, less depreciation charges that would have been made if the impairment loss had not been recognised.

### 3.10. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Parent's Articles of Association and registered with the National Court Register. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

Exchange differences on translating foreign operations are disclosed in accordance with the rules described in Section 3.2.2.

### 3.11. Trade payables and liabilities under borrowings

For rules to be followed in the measurement of trade payables, liabilities under borrowings and other financial liabilities, see Section 3.3.2.



## 3.12. Employee benefits

### 3.12.1. Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to make further payments. Contributions payable to a defined contribution plan are recognised as cost of employee benefits and charged to profit or loss in the period when the employee rendered the related service. A prepayment is recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund. Contributions to a defined contribution plan that fall due within more than twelve months after the period in which the employee rendered the related service are discounted to their present value.

### 3.12.2. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group recognises liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### 3.12.3. Share-based payments (management stock option plan)

The fair value of rights granted to employees to acquire the Parent's shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The fair value of the plan is initially measured as at the grant date. Fair value of the options is recognised in the Group's profit or loss over the period during which employees become unconditionally entitled to acquire the shares. The value of the plan is reviewed as at the end of each reporting period and as at the option vesting date, by changing the number of options that are expected by the Group to be unconditionally vested. Any changes in the fair value of the plan are disclosed as an adjustment to values previously posted in the current period. The fair value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based scheme, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the fair value of an individual right may only increase.

Fair value measurement of the plan has been performed using the Black-Scholes model. The selected model takes into account all the key factors affecting the cost recognised by the Group, including:

- the expected exchange rate applicable on exercise of an option (based on historical exchange rates and their changes),
- the option vesting period,
- the time and conditions of exercise of an option,
- the risk-free rate.

For the purpose of valuation of the plan, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is purchase the shares corresponding to such options on the first day following the vesting period. The average time to the exercise of acquired subscription warrants is 1.4 years.

### 3.13. Provisions

Provisions are recognised when the Group has a present legal or constructive liability resulting from past events, which can be reliably estimated and which is likely to cause an outflow of economic benefits when discharged. The amount of provision is determined by discounting the projected future cash flows at an interest rate before tax that reflects current market estimates of the time value of money and the risks associated with the liability. The unwinding of the discount is recognised as a finance cost.

### 3.14. Revenue

#### 3.14.1. Revenue from debt collection services

Revenue from debt collection includes revenue from debt collection services (fee-based credit management) and revenue from purchase debt portfolios.

##### *Revenue from fee-based credit management services*

Revenue from fee-based credit management services comprises commission fees due for the collection of debts. Such revenue is recognised on an accrual basis, in the period in which the service was provided, based on the collected amounts.

##### *Revenue from debt purchase*

##### Revenue from debt portfolios measured at fair value

Estimated cash flows from debt portfolios are divided into principal recoveries and interest determined at the discount rate. Recovered principal is recognised as a reduction of carrying amount of the debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. These amounts are disclosed as operating income, because the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.

Revaluation of purchased debt portfolios is defined as a change in their fair value caused by interest rate fluctuations and/or change of estimates concerning future cash flows.

##### Revenue from debt portfolios measured at amortised cost

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the initial value (acquisition price plus transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate calculated as specified above, and is recognised in profit or loss of the current period. All interest income is recognised as an increase in the portfolio value. The actual cash flows received from collections during the period are recognised as a decrease in the portfolio value. Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash flows for the portfolio are disclosed as revenue earned in a given period.

### 3.14.2. Sales of other services

Revenue from sales of other services is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

Revenue from sales of other services comprises revenue from loans advanced, calculated using the effective interest rate method, net of impairment.

### 3.15. Lease payments

Payments made under operating leases are recognised in profit or loss of the period, on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss of the period as an integral part of the total lease expense over the lease term.

Minimum lease payments under finance leases are apportioned between finance costs and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease, when the lease adjustment is confirmed.

### 3.16. Finance income and costs

Finance income includes interest income on funds invested by the Group (net of income on purchased debt, see (k)(i), and revenue from loans advanced as part of operating activities, see (k)(iii)), dividend receivable and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period on the accrual basis using the effective interest rate method. Dividend is accounted for in profit or loss of the period as at the date when the Group becomes entitled to receive the dividend.

Finance costs include interest on debt financing, unwinding of the discount on provisions, and impairment losses on financial assets. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method. Foreign exchange gains and losses are posted in net amounts.

### 3.17. Income tax

Income tax comprises current and deferred tax. Current and deferred tax is charged to profit or loss of the period except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

When determining amounts of current and deferred tax, the Group takes into account the impact of uncertainty concerning potential additional tax liabilities. However, facts and circumstances which may materialize in the future, may have an effect on an assessment of correctness of the existing and past tax liabilities.

Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.

Deferred tax is recognised in respect of temporary differences between the amounts of assets and liabilities as disclosed in the statement of financial position and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither profit or loss of the period, nor taxable income,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be disposed of in the foreseeable future,
- initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied when temporary differences reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

A deferred tax asset is recognised in respect of carry-forward tax losses, tax credits and deductible temporary differences in the amount of the probable taxable income which would enable these differences and losses to be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 3.18. Earnings per share

The Group presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period, adjusted for the number of own shares held by the Group. Diluted earnings per share are calculated by dividing the adjusted profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares adjusted for the number of treasury shares and the dilutive effect of any potential shares.

### 3.19. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses relating to transactions with other components of the Group. Operating results of each segment are reviewed regularly by the Group's chief operating decision maker that makes decisions about resources to be allocated to the segment and assess its performance. Furthermore, discrete financial information is available for each segment.

Operating results of each segment which are reported to the Parent's operating decision maker include items which may be assigned directly to the segment and items which may be assigned indirectly, based on reasonable grounds. Unassigned items relate mainly to common (corporate) assets (assets relating primarily to the management board of the entity), costs of the entity's head office and corporate income tax assets and liabilities.

### 3.20. New standards and interpretations not applied in these financial statements

A number of new Standards, amendments to Standards and Interpretations which were not yet effective for the annual periods ended December 31st 2016 have not been applied in preparing these consolidated financial statements. From among the new Standards, amendments to Standards and Interpretations, the ones discussed below may have an effect on the Company's financial statements. The Group intends to apply them to the periods for which they are effective for the first time.

#### 3.20.1. Amendments to current standards and interpretations

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the "EU IFRS") apply to reporting periods beginning on January 1st 2016:

- IFRS 9 *Financial Instruments* (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018;

On November 22nd 2016, the European Commission published the final text of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and measurement*. IFRS 9 covers the classification and measurement of financial instruments, impairment of financial instruments and trade receivables, as well as hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1st 2018, with an early adoption option. Requirements concerning classification, measurement and

impairment apply retrospectively; however, presentation of comparative data is not mandatory. Requirements concerning hedge accounting apply prospectively, with few exceptions.

The Group intends to adopt the new standard as of its effective date. In 2016, the Group performed an initial assessment of the impact of its implementation in all the three areas. The initial assessment was based on the then available information and is subject to change depending on further detailed analyses or availability of new information to the Group in the future. The Group expects a significant effect of the new standard on its assets and equity.

### **(a) Classification and measurement**

IFRS 9 requires that, after initial recognition, a debt financial asset should be measured at amortised cost or at fair value based on the entity's business model of financial asset management and on the asset's contractual cash flow characteristics.

The Group initially assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value will be measured at amortised cost, after the standard takes effect. The Group's business model provides for maintaining financial assets in order to generate cash flows from purchased debt portfolios, and the cash flows relate exclusively to repayment of principal and of interest on the balance of unpaid principal.

The Group does not expect the new standard to materially affect its other financial assets, including loans advanced. The current classification of loans advanced is compliant with the new standard.

### **(b) Impairment**

IFRS 9 requires recognition of the effect of expected credit losses on all financial assets measured at amortised cost, that is on purchased debt portfolios, loans advanced and trade receivables.

Debt portfolios which are currently measured at amortised cost are adjusted for the effect of future expected credit losses. As the Group purchases materially impaired debt portfolios, the effect of the impairment is already included in the purchase price.

Accordingly, the Group does not expect the new regulations concerning recognition of expected credit losses to have a material effect on the measurement of its financial assets.

### **(c) Hedge accounting**

As at the reporting date, the Group had no open hedging contracts. The Group believes that the hedging contracts it entered into in the past would still qualify for hedge accounting under IFRS 9 and would have no effect on profits for past years.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (published on November 21st 2013) – effective for annual periods beginning on or after July 1st 2014; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,
- Amendments to IFRS introduced as part of the 2010-2012 improvements cycle (published on December 12th 2013) – some of the amendments are effective for annual periods beginning on or after July 1st 2014, while some are effective prospectively for transactions entered into on or after July 1st 2014; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (published on May 6th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (published on May 12th 2014) – effective for annual periods beginning on or after January 1st 2016,

- IFRS 15 *Revenue from Contracts with Clients* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (published on June 30th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016;
- Amendments to IAS 1 – *Disclosure Initiative* (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016.

The Group has not elected to apply early any other standard, interpretation or amendment that has been published but has not become effective under the EU regulations.

### 3.20.2. Standards and interpretations that have been published, but have not yet been adopted

- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version – not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) – work leading to the approval of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period,
- IFRS 9 *Leases* (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts* (published on September 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Clarifications to IFRS 15 *Revenue from Contracts with Clients* (published on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.
- Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2014–2016 Cycle (published on December 8th 2016); as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; amendments to IFRS 12 and IFRS 1 are effective for annual periods beginning on or after January 1st 2017; amendments to IAS 28 are effective for annual periods beginning on or after January 1st 2018,

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 40 *Transfers of Investment Property* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.

## 4. Financial risk management

### *Introduction*

The Group is exposed to the following risks related to the use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information on the Group's exposure to each type of the above risks, the Group's objectives, policies and procedures for measuring and managing the risks, and the Group's management of capital. Note 28 to the consolidated financial statements presents respective quantitative disclosures.

### *Key policies of risk management*

The Management Board is responsible for establishing risk management procedures and for overseeing their application.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Group's activities. The Group, through appropriate training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### 4.1. Credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with receivables for the services provided by the Group and from purchased debt portfolios.

#### Trade and other receivables

The Management Board has established a credit policy whereby each client is evaluated for its creditworthiness before any payment dates and other contractual terms and conditions are offered to the client. The evaluation includes external ratings of the client, when available, and in some cases bank references. Each client is assigned a transaction limit which represents the maximum transaction amount for which no approval from the Management Board is required.

The Group regularly monitors whether payments are made when due, and if any delays are found, the following actions are taken:

- notices are sent to clients
- e-mails are sent to clients
- telephone calls are made to clients.

Over 60% of clients have conducted business with the Group for at least three years. In only few cases losses were incurred by the Group as a result of non-payment. Trade and other receivables mainly represent fees receivable in respect of debt collected for clients.

The Group's exposure to credit risk mainly results from individual characteristics of each client. The Group's largest client generates 0.45% of the Group's total revenue (2015: 0.28%). Receivables from the Group's largest client represented 2.23% of total trade receivables, VAT inclusive, as at December 31st 2016 (December 31st 2015: 2.26%). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises impairment losses which represent its estimates of incurred losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

#### Purchased debt portfolios

Purchased debt portfolios include overdue debts which prior to the purchase by the Group were often subject to collection by the seller of the portfolio or by a third party acting on the seller's behalf. Therefore, credit risk related to the purchased debt portfolios is relatively high, although the Group has the experience and advanced analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Group evaluates the portfolio's credit risk which is subsequently reflected in the price offered for the portfolio.

As the purchased debt portfolios are measured at fair value and amortised cost, the credit risk is reflected in the portfolios' valuations as at the end of each reporting period.

As at each valuation date, the Group estimates the credit risk based on past inflows from a given portfolio as well as other portfolios featuring similar characteristics. The following parameters are taken into account in the credit risk assessment:

- Debt:
  - outstanding amount
  - principal
  - principal to debt ratio
  - amount of credit granted / total amount of invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).
- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form
  - debtor's death or bankruptcy
  - debtor's employment.
- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforcement order
  - court collection
  - bailiff collection.

Changes of the credit risk assessment have an effect on the expected amount of future cash flows which are used as a basis of valuation of the purchased debt portfolios.

The Group minimises the risk by performing a thorough valuation of each portfolio before it is purchased, taking into account the likelihood of recovery of invested capital and the estimated costs of the collection process. Debt portfolios are purchased at official auctions, and prices offered by the Group in most of such



auctions do not differ significantly from prices offered by the Group's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.

The market value of a portfolio and its maximum purchase price are determined based on a complex statistical and economic analysis. Initially, portfolios are divided into sub-portfolios based on debt amount and type of security. This is done to select debts which can be valued using statistical methods. Remaining sub-portfolios are valued on a case-by-case basis in a due diligence process.

Proceeds are estimated based on a statistical model developed on the basis of available and precisely selected reference data matching the valuation data. The reference data is derived from a database containing information on portfolios previously purchased and collected by the Group.

Once the evaluation of effectiveness and debt collection tools is completed, all parameters and comparative data for the reference portfolio, collection process, efficiency curve and risk are gathered. Also at this stage additional parameter reviews are considered, based on expert opinions. A single document (business plan) is then drafted, containing a summary of adopted assumptions and the resultant projection of expected cash flows from a portfolio, and a financial model is structured. The business plan serves to define the maximum purchase price that can be offered. The maximum price is set based on the expected investment yield (mainly the internal rate of return, payback period, and nominal return). The expected return on investment largely depends on the risk inherent in a given project, which in turn depends on quality of the data provided by the client for valuation, reference data matching, number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow forecast.

Moreover, the Group diversifies the risk by purchasing various types of debt, with varying degrees of problems and delinquency periods.

The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:

- Assessment of a client's creditworthiness prior to proposing payment dates and other terms of cooperation;
- Regular monitoring of timely payment of debt;
- Maintaining a diversified client base.

The KRUK Group analyses the risk attached to the debt portfolios it purchases using advanced tools of economic and statistical analysis and its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis.

As at the date of this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on the Group's liquidity, but no assurance can be given that such a situation will not occur in the future.

Debt collection tools used include:

- letters
- telephone calls
- text messages
- partial debt cancellation
- intermediation in securing an alternative source of financing
- doorstep collection (at home or workplace)
- detective activities
- amicable settlements
- court collection
- enforcement against collateral.

## 4.2. Liquidity risk

Liquidity risk is the risk of potential difficulties that the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets. The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is at all times sufficient to meet liabilities in a timely manner, both in a regular and crisis situation, without exposing the Group to a risk of loss or damage to its reputation.

The Group mitigates the liquidity risk through continuous collection, which ensures constant cash inflows. The Group also monitors and takes actions to ensure proper performance of its borrowing agreements. Debt portfolio purchases involve making large one-off payments. To secure the necessary funding, the Group relies on external financing in the form of bank borrowings or bonds.

The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation.

Liquidity risk management tools used at the Group include:

- Regular monitoring of cash requirements and expenses;
- Flexible management of cash flows between the Group entities;
- Conducting collection activities on an ongoing basis, ensuring continuous cash inflow;
- Ensuring the Group's compliance with financial covenants under credit facility agreements and debt instrument issues;
- Use of external sources of funding, in the form of bank borrowings or bonds.

## 4.3. Market risk

Market risk is related to changes in such market factors as foreign exchange rates, interest rates or stock prices, which affect the Group's performance or the value of financial instruments it holds. The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

In the Management Board's opinion, for the Group the market risk relates primarily to exposure to the risk of changes in the PLN/RON and PLN/CZK exchange rate, given the Group's considerable investments in debt portfolios denominated in RON and CZK. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. As at December 31st 2016, assets denominated in foreign currencies accounted for 43.67% of total assets, while liabilities denominated in foreign currencies represented 6.52% of total equity and liabilities (December 31st 2015: 31.33% and 10.55%, respectively).

The Group uses financial instruments to hedge its interest rate risk (see Note 3c (ii)).

In order to minimise currency risk, a compartment (or a distinct part of business for which separate accounts are maintained) was established within subsidiary Secapital S.à.r.l., whose purpose is to purchase debt portfolios denominated in the Romanian leu (RON). Therefore RON is the functional currency of the new compartment. The decision was made based on the prevailing conditions in the Group's economic environment, in order to reflect the actual economic transactions, developments and factors as accurately as possible. This approach is consistent with IAS 21 which requires each individual entity preparing separate financial statements to determine its functional currency, being the currency in which the majority of its cash flows are generated, and measure its results, assets and financial position in that currency.

#### 4.4. Capital management

The Management Board monitors the return on equity, defined by the Group as the ratio of operating profit/(loss) to equity, excluding non-controlling interests.

The Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base. The Group aims to achieve a high return on equity; in the reporting period from January 1st 2016 to December 31st 2016 this ratio, computed as the ratio of net profit for the reporting period to equity less net profit, was 25.15% (2015: 31.31%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 4.57% (2015: 4.86%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and finance leases to total equity, was 1.33 as at December 31st 2016 (December 31st 2015: 1.78).

In the reporting period from January 1st 2016 to December 31st 2016, there were no changes in the Group's approach to capital management.

## 5. Reporting and geographical segments

### Reporting segments

Below, the Group presents its principal reporting segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated financial statements. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reporting segments conduct the following activities:

- Debt purchase: collection of purchased debt;
- Credit management: fee-based collection of debt on client's behalf;
- Other: financial intermediation, lending, provision of business information.

Each segment's performance is discussed below. The key performance metric for each reporting segment is gross profit, which is disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit is used to measure the segment's performance, as the management believes the gross profit to be the most appropriate metric for the assessment of the segment's results against other entities operating in the industry.

The Group's operating activities concentrate in a few geographical areas: Poland, Romania, the Czech Republic, Slovakia, Germany, Spain and Italy.

The Group's operations are also divided into three main geographical segments:

- Poland
- Romania
- Italy
- Other foreign markets

In the presentation of data by geographical segments, segments' revenue is recognised based on the location of debt collection offices.

Revenue from collection services and revenue from other products represent external revenue.

## Reporting segments

For the year ended December 31st 2016

	Poland	Romania	Italy	Other foreign markets	TOTAL
<b>Revenue</b>	<b>423,766</b>	<b>311,917</b>	<b>9,073</b>	<b>38,642</b>	<b>783,398</b>
Purchased debt portfolios	370,667	307,058	9,073	38,133	724,931
Credit management	26,831	4,859	-	509	32,199
Other products	26,268	-	-	-	26,268
<b>Direct and indirect costs</b>					<b>(306,841)</b>
Purchased debt portfolios	-	-	-	-	(270,665)
Credit management	-	-	-	-	(23,283)
Other products	-	-	-	-	(12,894)
<b>Gross profit</b>					<b>476,556</b>
Purchased debt portfolios	-	-	-	-	454,266
Credit management	-	-	-	-	8,916
Other products	-	-	-	-	13,374
Administrative expenses	-	-	-	-	(117,267)
Depreciation and amortisation expense	-	-	-	-	(13,538)
Other income	-	-	-	-	8,773
Other expenses (unallocated)	-	-	-	-	(5,501)
Finance income/costs	-	-	-	-	(62,675)
Profit before tax	-	-	-	-	286,347
Income tax	-	-	-	-	(37,671)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248,677</b>
<b>Carrying amount of debt portfolios</b>	<b>1,318,110</b>	<b>751,692</b>	<b>342,130</b>	<b>229,014</b>	<b>2,640,946</b>

Consolidated financial statements for the year ended December 31st 2016  
prepared in accordance with the IFRS endorsed by the EU (PLN '000)

## For the year ended December 31st 2015

	Poland	Romania	Italy	Other foreign markets	TOTAL
<b>Revenue</b>	<b>332,242</b>	<b>258,152</b>	<b>-92</b>	<b>20,933</b>	<b>611,235</b>
Purchased debt portfolios	288,784	254,797	-92	20,157	563,646
Credit management	25,681	3,355	-	776	29,812
Other products	17,776	-	-	-	17,776
<b>Direct and indirect costs</b>					<b>(253,314)</b>
Purchased debt portfolios	-	-	-	-	(225,041)
Credit management	-	-	-	-	(20,610)
Other products	-	-	-	-	(7,664)
<b>Gross profit</b>					
Purchased debt portfolios	-	-	-	-	338,605
Credit management	-	-	-	-	9,202
Other products	-	-	-	-	10,112
Administrative expenses	-	-	-	-	(94,401)
Depreciation and amortisation expense	-	-	-	-	(10,540)
Other income	-	-	-	-	2,589
Other expenses (unallocated)	-	-	-	-	(4,188)
Finance income/costs	-	-	-	-	(41,602)
Profit before tax	-	-	-	-	209,777
Income tax	-	-	-	-	(5,516)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>204,261</b>
<b>Carrying amount of debt portfolios</b>	<b>1,024,398</b>	<b>448,709</b>	<b>19,441</b>	<b>105,584</b>	<b>1,598,132</b>

## 6. Revenue

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Revenue from debt purchase	724,931	563,646
Revenue from credit management	32,199	29,812
Revenue from other services	26,268	17,776
	<b>783,398</b>	<b>611,234</b>

### Revenue from debt purchase

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Interest income adjusted for actual recoveries	636,521	510,652
Revaluation of debt portfolios	84,229	52,840
Sale of debts	384	73
Foreclosure of property	3,718	81
Sale of property	943	-
Value of property sold	(864)	-
	<b>724,931</b>	<b>563,646</b>

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Revision of recovery forecast	82,599	50,107
Change due to change in discount rate	(1,480)	1,072
Foreign currency gains	3,110	1,661
	<b>84,229</b>	<b>52,840</b>

The KRUK Group verifies projections of recoveries under debt portfolios on a quarterly basis, and every quarter it recognises changes in portfolio value. In 2016, the aggregate amount of the portfolio revaluation was PLN 82,599 thousand, and was recognised as revenue from purchased portfolios.

Revenue from debt purchase includes:

### Revenue from debt portfolios measured at fair value

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Interest income adjusted for actual recoveries	315,137	369,295
Revaluation of debt portfolios	144,506	97,410
Foreclosure of property	1,837	-
Sale of property	190	-
Value of property sold	(273)	-
	<b>461,397</b>	<b>466,705</b>

### Revaluation of debt portfolios measured at fair value

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Revision of recovery forecast	143,659	95,353
Change due to change in discount rate	(1,480)	1,072
Foreign currency gains	2,327	985
	<b>144,506</b>	<b>97,410</b>

Re-measurement of purchased debt portfolios represents changes in the fair value of financial assets measured at fair value through profit or loss which have been designated as such at the time of their initial recognition.

The recovery forecast update is primarily based on an analysis of:

- debtors' behaviour patterns and effectiveness of the collection tools applied;
- exchange rate movements against PLN (for debt portfolios not measured in the functional currency).

Pursuant to the accounting policies applied by the Group, revenue and gains from financial instruments at fair value through profit and loss are presented as revenue from purchased debt portfolios under operating income.

### Revenue from debt portfolios measured at amortised cost

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Interest income adjusted for actual recoveries	321,384	141,357
Revaluation of debt portfolios	(60,277)	(44,570)
Sale of debts	384	73
Foreclosure of property	1,881	81
Sale of property	753	-
Value of property sold	(591)	-
	<b>263,534</b>	<b>96,941</b>



### Revaluation of debt portfolios measured at amortised cost

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Revision of recovery forecast	(61,060)	(45,246)
Foreign currency gains	783	676
	<u>(60,277)</u>	<u>(44,570)</u>

### Revenue from credit management

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key client accounts for 10.89% of total revenue from fee-based credit management (2015: 5.78%).

## 7. Other income

PLN '000	Note	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Reversal of provision		3,805	-
Other		1,831	340
Liabilities written off		863	824
Reversal of impairment losses on receivables	29	862	319
Return of compensation for damage caused by motor vehicles		718	614
Re-billed costs of services and court fees		371	424
Gain on sale of property, plant and equipment		324	68
		<u>8,773</u>	<u>2,589</u>

## 8. Contracted services

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Transport services	(41)	(28)
Repair and maintenance services	(230)	(361)
Packing services	(386)	(143)
Security	(829)	(553)
Repair of vehicles	(862)	(526)
Marketing and management services	(871)	(1,008)
Recruitment services	(983)	(905)
Printing services	(1,188)	(907)
Other rental	(1,256)	(701)
Banking services	(2,185)	(1,918)
Other auxiliary services	(2,879)	(3,664)
IT services	(3,916)	(2,543)
Communications services	(4,194)	(3,626)
Credit management	(6,320)	(1,474)
Postal and courier services	(12,207)	(9,178)
Space rental and service charges	(13,956)	(10,773)
Consultancy services	(27,112)	(10,036)
	<u>(79,415)</u>	<u>(48,316)</u>

## 9. Other expenses

<i>PLN '000</i>	<b>Note</b>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Property insurance		(337)	(336)
Impairment losses on receivables	29	(475)	(705)
Losses from damage caused by motor vehicles		(759)	(612)
Entertainment expenses		(1,052)	(823)
Motor insurance		(1,278)	(1,238)
Other		(3,577)	(1,618)
Staff training		(3,811)	(2,654)
Business trips		(4,664)	(2,720)
Advertising		(5,413)	(7,016)
Raw materials and energy used		(11,301)	(9,527)
Taxes and charges		(34,108)	(38,123)
Court fees		(92,642)	(68,756)
		<u>(159,417)</u>	<u>(134,128)</u>

## 10. Employee benefits expense

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Salaries and wages	(144,272)	(127,373)
Other social security contributions	(12,425)	(8,289)
Old-age and disability pension contributions (defined contribution plans)	(25 227)	(19,341)
Contribution to the State Fund for the Disabled	(1,152)	(1,097)
Equity-settled cost of stock option plan	(7,702)	(13,332)
	<u>(190,778)</u>	<u>(169,432)</u>

## 11. Finance income and costs

### *Recognised as profit or loss for current period*

#### *Finance income*

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Interest income on bank deposits	363	342
Net foreign exchange gains	-	2,450
	<u>363</u>	<u>2,792</u>

#### *Finance costs*

	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Interest expense on financial liabilities measured at amortised cost	(62,758)	(43,765)
Net foreign exchange gains	(280)	-
Remeasurement of investments	-	(629)
	<u>(63,038)</u>	<u>(44,394)</u>

## Recognised under other comprehensive income

### Exchange differences on translating foreign operations

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Exchange differences on translating foreign operations	7,082	(3,815)
Attributable to:		
Owners of the Parent	7,082	(3,815)
Finance cost recognised directly in other comprehensive income	7,082	(3,815)

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
SeCapital S.à r.l.	5,253	(3,722)
KRUK Romania S.r.l	66	(19)
KRUK Česká a Slovenská republika s.r.o.	955	(2)
RoCapital IFN S.A.	492	(134)
Kruk Deustschland Gmbh	1,179	62
KRUK Italia S.r.l	23	-
ItaCapital S.r.l	(65)	-
KRUK Espana S.r.l	(821)	-
	7,082	(3,815)

## 12. Income tax

### Income tax recognised in profit or loss of the period

PLN '000	Note	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
<b>Income tax (current expense)</b>			
Income tax for period		(30,670)	(4,823)
<b>Income tax (deferred expense)</b>			
Origination/reversal of temporary differences	19	(7,001)	(693)
		(37,671)	(5,516)

Income tax disclosed in these financial statements includes income tax and withholding tax.

### Reconciliation of effective tax rate

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Net profit for period	248,677	204,261
Income tax recognised in the income statement	(37,671)	(5,516)
Profit before tax for period (assuming 19% tax rate)	327,339	232,165
Profit before tax for period (assuming 16% tax rate)	991	438
Loss before tax for period (assuming 19% tax rate)	(19,519)	(22,826)
Loss before tax for period (assuming 25% tax rate)	(4,331)	-
Loss before tax for period (assuming 27.9% tax rate)	(8,694)	-
Loss before tax for period (assuming 30% tax rate)	(9,438)	-
Tax calculated at the tax rate applicable in Poland (19%)	(62,153)	(224,608)
Tax calculated at the tax rate applicable in Romania (16%)	3,669	(70)
Tax calculated at the tax rate applicable in Spain (25%)	(159)	3,201
Tax calculated at the tax rate applicable in Italy (27.9%)	1,083	-
Tax calculated at the tax rate applicable in Germany (30%)	2,426	-
Tax calculated at the tax rate applicable in the Czech Republic (19%)	2,831	-
Effect of non-deductible expenses	14,632	187,243
Effect of tax-exempt income	-	28,718
	<u>(37,671)</u>	<u>(5,516)</u>

The effective tax rate differs from the applicable tax rates as the consolidated data includes data of entities whose operations are not taxed with income tax.

### 13. Current and non-current items of the statement of financial position

<b>As at December 31st 2016</b>			
PLN '000			
	<b>Note</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		27,473	19,957
Other intangible assets		14,293	11,805
Goodwill		62,604	1,024
Deferred tax asset		-	2,841
<b>Total non-current assets</b>		<b>104 371</b>	<b>35,628</b>
<b>Current assets</b>			
Inventories		485	587
Investments	18	2,676,202	1,620,579
Trade receivables		13,452	8,391
Other receivables		28,145	26,719
Prepayments and accrued income		5,658	3,469
Cash and cash equivalents		267,384	140,742
<b>Total current assets</b>		<b>2,991,326</b>	<b>1,800,487</b>
<b>Total assets</b>		<b>3,095,697</b>	<b>1,836,115</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		18,744	17,398
Share premium		288,326	64,382
Exchange differences on translating foreign operations		(592)	(7,674)
Other capital reserves		76,658	68,956
Retained earnings		854,354	641,182
<b>Equity attributable to owners of the Parent</b>		<b>1,237,490</b>	<b>784,244</b>
<b>Non-controlling interests</b>		<b>14</b>	<b>34</b>
<b>Total equity</b>		<b>1,237,504</b>	<b>784,278</b>
<b>Non-current liabilities</b>			
Deferred tax liability		4,057	-
Non-current liabilities under borrowings and other debt instruments		1,377,085	711,325
Hedge derivatives		-	589
<b>Total non-current liabilities</b>		<b>1,381,142</b>	<b>711,914</b>
<b>Current liabilities</b>			
Current liabilities under borrowings and other debt instruments		269,326	223,686
Trade and other payables		169,248	83,555
Current tax liability		4,079	3,178
Employee benefit obligations		34,396	29,239
Current provisions		-	264
<b>Total current liabilities</b>		<b>477,049</b>	<b>339,922</b>
<b>Total liabilities</b>		<b>1,858,191</b>	<b>1,051,836</b>
<b>Total equity and liabilities</b>		<b>3,095,697</b>	<b>1,836,115</b>

## 14. Property, plant and equipment

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
<b>Gross value of property, plant and equipment</b>						
Gross value as at Jan 1 2015	938	16,262	22,786	2,421	146	42,553
Purchase	86	2,792	3,005	248	-	6,131
Sale/ liquidation	-	(915)	(1,394)	(16)	0	(2,324)
Reclassification of property, plant and equipment under construction	-	-	-	20	(20)	-
Effect of exchange rate changes	(5)	(23)	(73)	9	-	(92)
Gross value as at Dec 31 2015	1,019	18,117	24,325	2,682	126	46,267

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value as at Jan 1 2016	1,019	18,117	24,325	2,682	126	46,267
Purchase	226	5,089	9,338	761	-	15,414
Sale/ liquidation	(490)	(501)	(2,215)	(10)	-	(3,216)
Reclassification of property, plant and equipment under construction	-	-	-	45	1,061	1,106
Effect of exchange rate changes	21	149	268	65	-	503
Gross value as at Dec 31 2016	776	22,854	31,716	3,543	1,187	60,074

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PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
<b>Depreciation and impairment losses</b>						
Accumulated depreciation and impairment losses as at Jan 1 2015	(415)	(10,790)	(9,425)	(1,658)	-	(22,288)
Depreciation	(38)	(2,505)	(3,304)	(399)	-	(6,246)
Decrease resulting from sale/ liquidation	-	912	1,280	15	-	2,207
Effect of exchange rate changes	3	13	20	(18)	0	17
Accumulated depreciation and impairment losses as at Dec 31 2014	(451)	(12,371)	(11,429)	(2,060)	-	(26,310)

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation and impairment losses as at Jan 1 2016	(451)	(12,371)	(11,429)	(2,060)	-	(26,310)
Depreciation	(75)	(2,741)	(5,183)	(402)	-	(8,401)
Decrease resulting from sale/ liquidation	486	273	1,728	10	-	2,497
Effect of exchange rate changes	(18)	(200)	(116)	(53)	-	(387)
Accumulated depreciation and impairment losses as at Dec 31 2016	(58)	(15,039)	(15,000)	(2,505)	-	(32,601)

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
<b>Net value</b>						
As at January 1st 2015	523	5,472	13,361	763	146	20,265
As at December 31st 2015	568	5,746	12,896	622	126	19,957
As at January 1st 2016	568	5,746	12,896	622	126	19,957
As at December 31st 2016	718	7,815	16,716	1,038	1,187	27,473



### Property, plant and equipment under leases

Under finance lease agreements, the Group uses cars and trucks whose net carrying amount as at December 31st 2016 and December 31st 2015 was PLN 13,959 thousand and PLN 11,533 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 25).

### Property, plant and equipment under construction

In 2016, the Group incurred costs related to the purchase of IT and telecommunication equipment which was not placed in service as at December 31st 2016. As at December 31st 2016 and December 31st 2015, the value of property, plant and equipment under construction was PLN 1,187 thousand and PLN 126 thousand, respectively.

## 15. Other intangible assets

PLN '000

	Software, licences, permits	Other	Total
<b>Gross value of intangible assets</b>			
Gross value as at Jan 1 2015	23,665	369	24,034
Produced internally	4,149	-	4,149
Other increase	348	-	1,136
Decrease	(3,513)	-	(3,513)
Effect of exchange rate changes	18	-	18
Gross value as at Dec 31 2015	24,667	369	25,824
Gross value as at Jan 1 2016	24,667	369	25,036
Produced internally	5,173	-	5,173
Other increase	3,652	-	3,652
Decrease	(3,579)	-	(3,579)
Effect of exchange rate changes	(30)	-	(30)
Gross value as at Dec 31 2016	29,883	369	30,252

PLN '000

	<b>Software, licences, permits</b>	<b>Other</b>	<b>Total</b>
<b>Accumulated amortisation and impairment losses</b>			
Accumulated amortisation and impairment losses as at Jan 1 2015	(12,647)	(369)	(13,016)
Amortisation	(4,294)	-	(4,294)
Decrease	3,294	-	3,294
Effect of exchange rate changes	(3)	-	(3)
Accumulated amortisation and impairment losses as at Dec 31 2014	<u>(13,649)</u>	<u>(369)</u>	<u>(14,018)</u>
Accumulated amortisation and impairment losses as at Jan 1 2016	(13,649)	(369)	(14,018)
Amortisation	(5,137)	-	(5,137)
Effect of exchange rate changes	(90)	-	(90)
Decrease	3,285	-	3,285
Accumulated amortisation and impairment losses as at Dec 31 2016	<u>(15,590)</u>	<u>(369)</u>	<u>(15,959)</u>

PLN '000

	<b>Software, licences, permits</b>	<b>Other</b>	<b>Total</b>
<b>Net value</b>			
As at January 1st 2015			
As at December 31st 2015	11,018	-	11,018
	<u>11,017</u>	<u>-</u>	<u>11,805</u>
As at January 1st 2016			
As at December 31st 2016	11,017	-	11,805
	<u>14,293</u>	<u>-</u>	<u>14,293</u>

## 16. Goodwill

PLN '000

	Kancelaria Prawna RAVEN	Credit Base S.r.l	Espand Soluciones de Gestion S.L.	Rejestr Dłużników ERIF BIG S.A.	Total
<b>Gross value</b>					
Gross value as at Jan 1 2015	299	-	-	725	1,024
Increase	-	-	-	-	-
Decrease	-	-	-	-	-
Gross value as at Dec 31 2015	299	-	-	725	1,024
Gross value as at Jan 1 2016	299	-	-	725	1,024
Increase	-	9,323	52,257	-	61,580
Decrease	-	-	-	-	-
Gross value as at Dec 31 2016	299	9,323	52,257	725	62,604
<b>Net value</b>					
As at January 1st 2015	299	-	-	725	1,024
As at December 31st 2015	299	-	-	725	1,024
As at January 1st 2016	299	-	-	725	1,024
As at December 31st 2016	299	9,323	52,257	725	62,604

On November 7th 2016, the KRUK Group, acting through its Parent, acquired 100% of the shares in Credit Base International Sr of La Spezia, Italy ("CBI"), which in turn holds 100% of the shares in Elleffe Capital Srl of La Spezia, Italy ("EFF"). CBI is a service company, with many years of experience in recovery. EFF is a company founded to buy debt, which is operated by the CBI. Kruk Group following the acquisition serwisera has become an important player in the collection in Italy and has gained significant support and expertise in the use of debt in the Italian market. Settlement of the acquisition of both companies was conducted in accordance with IFRS 3.

Following the accounting for the transaction, there are no non-controlling interests in the acquiree. The KRUK Group has 12 months from the acquisition date to finally account for the goodwill which arose on the acquisition; the goodwill shown above is only provisional.

Preliminary accounting for the acquisition of CBI:

ASSETS	CBI data as at Nov 7 2016		
	(based on the value disclosed in the financial statements)	Fair value adjustment	Fair value of acquired assets
Cash and cash equivalents	1,702	0	1,702
Trade receivables	3,919	0	3,919
Investments	2,810	973	3,783
Other receivables	0	0	0
Inventories	0	0	0
Property, plant and equipment	138	0	138
Other intangible assets	192	-57	135
<b>TOTAL ASSETS</b>	<b>8,761</b>	<b>916</b>	<b>9,677</b>

LIABILITIES	CBI data as at Nov 7 2016		
	(based on the value disclosed in the financial statements)	Fair value adjustment	Fair value of acquired liabilities
Trade and other payables	4,916	0	4,916
Employee benefit obligations	1,424	0	1,424
Current tax liability	0	0	0
Liabilities under borrowings and other debt instruments	1,620	0	1,620
Provisions	967	0	967
<b>TOTAL LIABILITIES</b>	<b>8,927</b>	<b>0</b>	<b>8,927</b>

Preliminary accounting for the acquisition of Elleffe:

ASSETS	Elleffe data as at Nov 7 2016		
	(based on the value disclosed in the financial statements)	Fair value adjustment	Fair value of acquired assets
Cash and cash equivalents	68	0	68
Trade receivables	0	0	0
Investments	2,150	1,927	4,077
Other receivables	0	0	0
Inventories	0	0	0
Property, plant and equipment	0	0	0
Other intangible assets	35	0	35
Goodwill	0	0	0
Deferred tax asset	0	0	0
Other assets	0	0	0
<b>TOTAL ASSETS</b>	<b>2,253</b>	<b>1,927</b>	<b>4,180</b>

LIABILITIES	Elleffe data as at Nov 7 2016		
	(based on the value disclosed in the financial statements)	Fair value adjustment	Fair value of acquired liabilities
Trade and other payables	261	0	261
Employee benefit obligations	0	0	0
Current tax liability	0	0	0
Liabilities under borrowings and other debt instruments	0	0	0
Provisions	0	0	0
<b>TOTAL LIABILITIES</b>	<b>261</b>	<b>0</b>	<b>261</b>

The acquired assets and liabilities were measured at fair value. The fair value of the acquired debt portfolio was determined based on discounted future cash flows, in accordance with the methodology applicable at the KRUK Group.

The KRUK Group is analysing whether any additional intangible assets were acquired in the transaction. As a result of the acquisition, the KRUK Group recognised goodwill of PLN 9,323 thousand. The goodwill will be tested for impairment in subsequent reporting periods.

On December 20th 2016, the KRUK Group, acting through its Parent, acquired 100% of the shares in Espand Soluciones de Gestion of Madrid, Spain, ("Espand"). Espand is a service company, with many years of experience in recovery in the Spanish market, the company has an experienced team to handle contracts receivables collection, among others, the leading Spanish banks. KRUK Group on the acquisition of Espand becoming an important player in the collection in Spain, as well as gaining significant support and the necessary knowledge to handle debt portfolios purchased the property on the Spanish market.

Acquisition of both companies was accounted for in accordance with IFRS 3. Following the accounting for the transaction, there are no non-controlling interests in the acquiree. The KRUK Group has 12 months from the acquisition date to finally account for the goodwill which arose on the acquisition, therefore the goodwill shown above is only provisional.

Preliminary accounting for the acquisition of Espand:

ASSETS	Espand data as at Dec 20 2016		Fair value of acquired assets
	(based on the value disclosed in the financial statements)	Fair value adjustment	
Cash and cash equivalents	1,641	0	1,641
Trade receivables	0	0	0
Investments	0	0	0
Other receivables	2,654	0	2,654
Inventories			
Property, plant and equipment	1,092	0	1,092
Other intangible assets	60	0	60
Goodwill	0	0	0
Deferred tax asset	0	0	0
Other assets	2	0	2
<b>TOTAL ASSETS</b>	<b>5,449</b>	<b>0</b>	<b>5,449</b>
LIABILITIES	Espand data as at Dec 20 2016		Fair value of acquired liabilities
		Fair value adjustment	
Trade and other payables	1,673	848	2,521
Employee benefit obligations	0.00	5,945	5,945
Current tax liability	0.00	0.00	0.00
Liabilities under borrowings and other debt instruments	0.00	0.00	0.00
Provisions	0.00	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>1,673</b>	<b>6,793</b>	<b>8,466</b>

The acquired assets and liabilities were measured at fair value. No additional intangible assets were identified for recognition when accounting for the acquisition of the companies.

Following the acquisition, the KRUK Group recognised goodwill of PLN 52,257 thousand (of which PLN 11,758 thousand was suspended in a joint account until final accounting for the transaction).

The goodwill will be tested for impairment in subsequent reporting periods.

### Tests for impairment of cash-generating units which include goodwill

For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest units (not larger than the Group's operating segments described in Note 6) for which goodwill is monitored for internal management purposes.

Recoverable amount of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units.

The key values adopted for the estimation process reflect the Management Board's expectations regarding the future of the debt collection industry and are based on external sources and in-house research (historical data).

## 17. Investments

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Investments</b>		
Financial assets at fair value through profit or loss	603,658	724,832
Financial assets measured at amortised cost	2,037,288	873,300
Investment property	6,780	434
Loans advanced	28,476	22,013
	<u>2,676,202</u>	<u>1,620,579</u>

Financial assets at fair value through profit or loss (designated as such at the time of initial recognition) include purchased debt portfolios.

As of January 1st 2014, all purchased debt portfolios were classified as loans and receivables, to better reflect the portfolio management strategy focused on maximising recoveries. Portfolios measured at amortised cost are classified as loans and receivables.

For rules governing valuation of purchased debt portfolios, see Note 3(b)(i). Purchased debt portfolios are divided into the following main categories:

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Purchased debt portfolios</b>		
Unsecured portfolios	2,118,344	1,242,586
Secured portfolios	522,602	355,546
	<u>2,640,946</u>	<u>1,598,132</u>

The following assumptions were made in the valuation of debt portfolios:

	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Discount rate		
- risk-free*	-0.1%-2.15%	0.0663%-1.99%
- risk premium**	7.05% - 321.14%	7.94% - 321.14%
Period for which cash flows have been estimated	Jan 2017–Dec 2032	Jan 2016–Dec 2031
Nominal value of expected future cash flows	5,037,123	2,835,508

\* *Varies by market.*

\*\* *Applicable to 99% of fair value.*

Projected schedule of inflows from debt portfolios (nominal value):

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Period</b>		
Less than 6 months	563,555	390,928
From 6 to 12 months	580,262	344,869
From 1 to 2 years	1,047,675	558,887
From 2 to 5 years	1,965,730	1,246,595
Over 5 years	879,901	294,229
	<b>5,037,123</b>	<b>2,835,508</b>

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios).

If necessary, as at the end of each quarter the Group updates the following parameters which are used to estimate the future cash flows:

- risk-free rate - an increase in the risk-free rate means a decrease in fair value;
- Risk premium,
- Period for which cash flows are estimated – extension of the period reduces fair value of debt portfolios;
- Value of expected future cash flows estimated using the current data and debt collection tools - a growth in the value of expected future cash flows means an increase in fair value.

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans advanced, see Note 29.



Below are presented changes of net carrying amount of the purchased debt portfolios:

PLN '000

<b>Value of purchased debt portfolios as at Jan 1 2015</b>	<b>1,366,537</b>
Purchase of debt portfolios	489,282
Cash recoveries	(825,659)
Increase/(decrease) in liabilities to debtors due to overpayments	458
Valuation of loyalty scheme	4,318
Revenue from debt purchase (interest and revaluation)	563,646
Translation differences on debt portfolios	(450)
<b>Value of purchased debt portfolios as at Dec 31 2015</b>	<b>1,598,132</b>
<b>Value of purchased debt portfolios as at Jan 1 2016</b>	<b>1,598,132</b>
Purchase of debt portfolios	1,285,899
Purchase price adjustment for discount	(1,209)
Cash recoveries	(998,957)
Value of property	(6,551)
Increase/(decrease) in liabilities to debtors due to overpayments	1 024
Valuation of loyalty scheme	5,173
Revenue from debt purchase (interest and revaluation)	724,931
Translation differences on debt portfolios	25,953
<b>Value of purchased debt portfolios as at Dec 31 2016</b>	<b>2,640,946</b>

On July 29th 2016, the KRUK Group, acting through its related entities ProsperoCapital S.à.r.l of Luxembourg ("ProsperoCapital") and Invest Capital Malta Ltd of Malta ("ICM"), entered into an agreement with International Finance Corporation ("IFC") (an entity related to the World Bank) concerning joint purchase of debt portfolios in the Romanian market and outsourcing of their management to a jointly selected entity in accordance with a debt portfolio management strategy approved by both parties. The agreement is effective until August 3rd 2022, but may be extended for another four years. The agreement is a strategic one, as its aim is to increase the KRUK Group's foothold in the Romanian market. The agreement meets the criteria to be classified as a joint arrangement in accordance with IFRS 11, and is performed in the form of a joint operation; as such it is subject to disclosure in the consolidated financial statements based on a proportional share in assets and liabilities.

In making an assessment whether the agreement meets the criteria of joint control, the KRUK Group did not rely on subjective judgement. The rules governing joint control of ProsperoCapital were provided for in the agreements signed between the jointly-controlling parties:

- the KRUK Group and IFC hold respectively 67% and 33% rights to the assets and liabilities of ProsperoCapital;
- the debt portfolio purchase was financed through an issue of bonds by ProsperoCapital, 67% of which were acquired by ICM and 33% – by IFC; all the risks and benefits are allocated to the entity acquiring the bonds,
- A unanimous consent of both parties is required to make any material decision:
  - both parties must approve the debt management strategy (updated on a semi-annual basis) and the business plan
  - none of the parties may unilaterally make any material changes in the company's structure or its managing bodies
- any recoveries from the debt portfolio, which are used to finance redemption of the bonds, are distributed pro-rata to the parties' rights to assets

- after expiry of the contractual term, the parties share the purchased debt (measured as at the agreement termination date) in accordance with the strategy.

In making an assessment that the agreement meets the criteria to be classified as a joint operation rather than a joint venture, the KRUK Group took into consideration:

- the economic substance of the transaction, according to which the KRUK Group invested in the purchase of debt portfolios and not in bonds of ProsperoCapital
- the nature of payments under the bonds, which indicates that this is a “pass through” transaction, as the redemption of the bonds is closely related to cash inflows from the purchased debt portfolios,
- under the executed agreement, the parties to the joint operation do not have the right to net assets but to assignment of the claims incorporated in the purchased debt portfolio for the purpose of satisfaction of any amounts that remain unpaid under the bonds after expiry of the agreement term.

As at December 31st 2016, the value of the KRUK Group’s investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 153,525 thousand, while revenue shown in the statement of profit or loss was PLN 15,411 thousand.

In 2010, the Group commenced advancing loans to individuals not engaged in any business activity. Loans are granted for up to PLN 10 thousand and their maturities range from 3 to 30 months. The loans bear interest at fixed rates. Their average nominal interest rate is 10.3%. Additional revenue comprises commission fees, arrangement fees and insurance fees.

## 18. Deferred tax

### Deferred tax assets and liabilities

Deferred tax assets and liabilities have been recognised in respect of the following items of assets and liabilities:

PLN '000	Assets		Liabilities		Net value	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Property, plant and equipment	2,206	1,297	(2,598)	(1,686)	(392)	(389)
Intangible assets	-	-	(2,033)	(1,742)	(2,033)	(1,742)
Loans advanced	-	2,578	-	-	0	2,578
Trade and other receivables	96	105	(2,747)	(1,151)	(2,651)	(1,046)
Liabilities under borrowings and other debt instruments	1,428	-	-	-	1,428	-
Employee benefit obligations	2,692	3,194	-	-	2,692	3,194
Provisions and liabilities	697	247	(227)	-	470	247
Investments in debt portfolios	-	-	(3,571)	-	(3,571)	-
<b>Deferred tax assets/liabilities</b>	<b>7,119</b>	<b>7,421</b>	<b>(11,176)</b>	<b>(4,579)</b>	<b>(4,057)</b>	<b>2,841</b>
Deferred tax assets offset against liabilities	(7,119)	(4,579)	7,119	4,579	-	-
<b>Deferred tax assets/liabilities in the statement of financial position</b>	<b>-</b>	<b>2,841</b>	<b>(4,057)</b>	<b>-</b>	<b>(4,057)</b>	<b>2,841</b>

## Change in temporary differences in a period

PLN '000

	As at Jan 1 2015	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2015	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016
Property, plant and equipment	(69)	(320)	(389)	(389)	(3)	(392)
Intangible assets	(1,500)	(242)	(1,742)	(1,742)	(291)	(2,033)
Loans advanced to other entities	1,800	778	2,578	2,578	(2,578)	-
Trade and other receivables	(34)	(1,012)	(1,046)	(1,046)	(1,605)	(2,651)
Employee benefit obligations	2,809	385	3,194	3,194	(502)	2,692
Provisions and liabilities	381	(134)	247	247	223	470
Other	147	(147)	-	-	(3,571)	(3,571)
	3,534	(693)	2,841	2,841	(7,001)	(4,057)

The Group benefits from the regulation provided in IAS 12.39 and does not recognise a deferred tax liability in respect of retained earnings at its related entities in view of the fact that it is able to control the timing of the reversal of temporary differences in the foreseeable future.

## Poland

Tax loss for a given financial year may be utilised over a period of five years, beginning in the year immediately following the year when the loss was incurred. Under the Polish tax laws, up to 50% of a loss may be utilised in each of the years of the five-year period.

Tax losses and periods over which they can be utilised:

<i>PLN '000</i>	<b>Tax loss expiry date</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Tax loss for 2011	Dec 31 2016	93	93
Tax loss for 2012	Dec 31 2017	361	361
Tax loss for 2013	Dec 31 2018	1,032	1,032
Tax loss for 2014	Dec 31 2019	1,277	1,277
Tax loss for 2015	Dec 31 2020	698	698
Tax loss for 2016	Dec 31 2021	265	-
		<hr/>	<hr/>
		3,726	3,461
		<hr/>	<hr/>
Applicable tax rate		19%	19%
		<hr/>	<hr/>
Potential benefit of tax losses		708	658
		<hr/>	<hr/>

Deferred tax assets of PLN 708 thousand (December 31st 2015: PLN 658 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

## Romania

Until 2009, tax loss could be used over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2009, the period over which tax losses can be used was extended to seven years. As at December 31st 2016 and December 31st 2015, KRUK Romania S.r.l. did not have any unused tax losses.

## Czech Republic

KRUK Česká a Slovenská republika s.r.o. may use a tax loss over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2016, KRUK Česká a Slovenská republika s.r.o. incurred a tax loss of PLN 3,849 thousand (December 31st 2015: PLN 0 thousand).

Tax losses and periods over which they can be utilised:

<i>PLN '000</i>	<b>Tax loss expiry date</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Tax loss for 2011	Dec 31 2016	-	-
Tax loss for 2012	Dec 31 2017	203	203
Tax loss for 2013	Dec 31 2018	8,394	8,394
Tax loss for 2014	Dec 31 2019	-	-
Tax loss for 2015	Dec 31 2020	-	-
Tax loss for 2016	Dec 31 2021	3,849	-
		<u>12,446</u>	<u>8,597</u>
Applicable tax rate		19%	19%
Potential benefit of tax losses		<u>2,365</u>	<u>1,633</u>

Deferred tax assets of PLN 3,849 thousand (December 31st 2015: PLN 1,633 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

Deferred tax assets were identified for temporary differences and tax losses incurred by the entities based in Poland – assuming a 19% tax rate, for temporary differences and tax losses incurred by the entity based in Romania – assuming a 16% tax rate, and for temporary differences and tax losses incurred by the entity based in the Czech Republic – assuming a 19% tax rate. These are tax rates applicable as at the end of the reporting periods.

## 19. Inventories

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Materials	484	586
Prepaid deliveries	1	1
	<u>485</u>	<u>587</u>

In the reporting period ended December 31st 2016, the Group did not recognise any write-downs on inventories.

## 20. Trade and other receivables

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Trade receivables	13,452	8,391
	<u>13,452</u>	<u>8,391</u>

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Taxes receivable (other than income tax)	9,999	3,232
Receivables for court fees and stamp duty	8,084	20,404
Receivables under security deposits and bid bonds	6,425	-
Other receivables	3,637	3,083
	<u>28,145</u>	<u>26,719</u>

The item taxes receivable (other than income tax) refers to value-added tax receivable.

For information on the Group's exposure to credit and currency risk as well as impairment losses on receivables, see Note 29.

## 21. Cash and cash equivalents

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Cash in hand	75	101
Cash in current accounts	267,309	140,641
	<u>267,384</u>	<u>140,742</u>

Restricted cash is represented by cash to be transferred to clients in respect of debts collected under fee-based credit management.

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 29.

## 22. Other assets

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Expenses relating to future reporting periods	2,507	858
Development expense	729	532
Liability and all-loss insurance expense	110	430
Other	2,313	1,649
	<u>5,659</u>	<u>3,469</u>

## 23. Equity

### Share capital

	2016	2015
<i>'000</i>		
<b>Number of shares as at Jan 1</b>	17,398	17,110
Issue of shares	1,346	288
<b>Number of fully-paid shares at end of period</b>	<b>18,744</b>	<b>17,398</b>
<i>PLN</i>		
Par value per share	1.00	1.00
<i>PLN '000</i>		
Par value of share capital as at Jan 1	17,398	17,110
<b>Par value as at Dec 31</b>	<b>18,744</b>	<b>17,398</b>

### Parent's shareholding structure as at December 31st 2016

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,919,841	1,920	10.24%
NN PTE (*)	1,992,000	1,992	10.63%
Aviva OFE	1,100,000	1,100	5.87%
Generali OFE	1,065,000	1,065	5.68%
Other members of the Management Board	245,105	245	1.31%
Other shareholders	12,422,270	12,422	66.27%
	<b>18,744,216</b>	<b>18,744</b>	<b>100.00%</b>

(\*) Joint shareholding of NN OFE and NN DFE, managed by NN PTE S.A.

As at 31 December 2016. Registered share capital consisted of 17 744 thousand. ordinary shares (31.12.2015 .: 17 398 thousand.). The nominal value of one share amounted to 1 zł (31.12.2015 .: 1 zł).

On 7 February 2017. District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register in Wrocław registered the increase of share capital through the issue of ordinary bearer shares of series G and the amendment of the Articles of the Company. The share capital after the registration is 18 744 216 dollars. The share capital is divided into 18 744 216 shares with a nominal value of PLN 1 each.

On February 22nd 2016, the Management Board of the Warsaw Stock Exchange (Warsaw Stock Exchange, "WSE") adopted Resolution No. 165/2016 to admit and introduce to stock-exchange trading on the WSE Main Market Series E ordinary bearer shares in the Company ("Resolution"). In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1-2 of the WSE Rules, 117,398 Series E ordinary bearer shares with a par value of PLN 1.00 per share were admitted to trading on the main market. Further, under the Resolution, pursuant to Par. 38.1 and 38.3 of the WSE Rules, the WSE Management Board decided to introduce, under the ordinary procedure, the Company shares referred to above to trading on the main



market as of February 25th 2016, provided that on that day the Central Securities Depository of Poland registers the shares and assign to them ISIN code No. PLKRK0000010.

On June 22nd 2016, the Management Board of the Warsaw Stock Exchange (Warsaw Stock Exchange, "WSE") adopted Resolution No. 644/2016 to admit and introduce to stock-exchange trading on the WSE Main Market Series E ordinary bearer shares in the Company ("Resolution"). In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1 and 19.2 of the WSE Rules, 228,470 Series E ordinary bearer shares with a par value of PLN 1.00 per share were admitted to trading on the main market. Further, under the Resolution, pursuant to Par. 38.1 and 38.3 of the WSE Rules, the WSE Management Board decided to introduce, under the ordinary procedure, the Company shares referred to above to trading on the main market as of June 27th 2017, provided that on that day the Central Securities Depository of Poland registers the shares and assigns them ISIN code No. PLKRK0000010.

On December 28th 2016, the Management Board of the Warsaw Stock Exchange ("WSE") adopted Resolution No. 1384/2016 to admit 1,000,000 allotment certificates to Series G ordinary bearer shares in the Company with a par value of PLN 1 per share (ISIN code: PLKRK0000499) to stock-exchange trading on the WSE Main Market.

## Other capital reserves

Other capital reserves are created by virtue of relevant resolutions of the Parent's General Meeting, which has the power to decide on allocation of such reserves. In addition, capital reserves are also created when benefits are granted to employees under share-based payments.

## Share-based payments

### Incentive scheme for 2011-2014

Until June 30th 2016, the KRUK Group operated an incentive scheme for key management personnel of the Parent and Group companies, covering the years 2011-2014 ('Incentive Scheme' or 'Scheme').

The rules of the Incentive Scheme for 2011-2014 were adopted by way of Resolution No. 1/2011 of KRUK's Extraordinary General Meeting of March 30th 2011, and amended by a resolution of the Extraordinary General Meeting of August 29th 2011. Under the Scheme, eligible persons will have the right to acquire Company shares on preferential terms, set forth in the Resolution and in the Rules of the Incentive Scheme. The eligible persons are members of the Management Board (excluding the President), Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

In connection with the Incentive Scheme, the Extraordinary General Meeting approved a conditional share capital increase of up to PLN 845,016 through an issue of up to 845,016 Series E ordinary bearer shares. The purpose of the conditional share capital increase is to grant the right to subscribe for Series E shares to holders of subscription warrants that will be issued under the Incentive Scheme. Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series E Shares at an issue price equal to the issue price of Company shares in the initial public offering, i.e. PLN 39.70 per share, not earlier than six months after the subscription for the warrants and not later than on June 30th 2016.

Subscription warrants were issued in four tranches, one for each year of the reference period, i.e. for the financial years 2011-2015.

Subscription warrants for a given financial year were granted by the KRUK Supervisory Board on condition that two financial ratios reflecting the KRUK Group's consolidated results – EPS and EBITDA or ROE – reach predefined levels, according to the following criteria:

- Increase of EPS in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EBITDA increases by at least 17.5%;
- ROE in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 20%.

### **Tranche 1**

Under Tranche 1, eligible persons, including Management Board Members, were offered subscription warrants pursuant to the Supervisory Board's resolution of July 20th 2012 on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2011, and determining the list of eligible persons under Tranche 1 for 2011 and the list of persons eligible under Tranche 1 for 2011 from the Reserve Pool.

On this basis, in 2012 eligible persons, including Management Board Members, subscribed for 189,790 warrants.

By June 30th 2016, 188,650 warrants were converted into Series E Company shares. The remaining 1,140 Tranche 1 warrants held by eligible persons expired on June 30th 2016. The final option exercise date was June 30th 2016.

### **Tranche 2**

On August 5th 2013, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2012, and determining the list of eligible persons under Tranche 2 for 2012. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 2 for 2012 had been fulfilled, and determined the list of eligible persons in Tranche 2 for 2012 and the list of persons eligible in Tranche 2 for 2012 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2012 Management Stock Option Plan to the persons named in the lists, including Management Board Members. On October 1st 2013, 201,758 subscription warrants were delivered to the Eligible Persons.

By June 30th 2016, all subscription warrants issued in Tranche 2 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

### **Tranche 3**

On June 12th 2014, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2013, and determining the list of eligible persons under Tranche 3 for 2013. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 3 for 2013 had been fulfilled, and determined the list of eligible persons in Tranche 3 for 2013 and the list of persons eligible in Tranche 3 for 2013 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2013 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 190,651 subscription warrants were delivered to the eligible persons on June 26th 2014.

By June 30th 2016, all subscription warrants issued in Tranche 3 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

#### Tranche 4

On July 3rd 2015, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2014, and determining the list of eligible persons under Tranche 4 for 2014. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 4 for 2014 had been fulfilled, and determined the list of eligible persons in Tranche 4 for the year.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2014 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 262,817 subscription warrants were delivered to the eligible persons on July 7th 2015.

By June 30th 2016, all subscription warrants issued in Tranche 4 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

#### Exercised warrants

2011–2016 Option Plan	Number of options available under the Plan	Number of priced (offered) options	Number of issued options	Number of exercised options				
				Number of exercised options	in 2016	in 2015	in 2014	in 2013
<b>2011–2016 Option Plan</b>	<b>845,016</b>	<b>918,798</b>	<b>845,016</b>	<b>851,076</b>				
<b>base pool</b>	<b>650,673</b>	<b>650,673</b>	<b>576,891</b>	<b>576,891</b>				
2011_tranche	162,690	162,690	161,057	161,057	<b>18,144</b>	<b>51,017</b>	<b>40,341</b>	<b>51,555</b>
2012_tranche	162,690	162,690	152,738	152,738	<b>18,631</b>	<b>57,641</b>	<b>76,466</b>	
2013_tranche	162,690	162,690	143,231	143,231	<b>22,283</b>	<b>120,948</b>		
2014_tranche	162,603	162,603	119,865	119,865	<b>119,865</b>			
<b>reserve pools</b>	<b>194,343</b>	<b>268,125</b>	<b>268,125</b>	<b>274,185</b>				
2011_tranche	48,564	28,733	28,733	34,793	<b>5,273</b>	<b>4,140</b>	<b>10,980</b>	<b>7,200</b>
2012_tranche	48,564	49,020	49,020	49,020	<b>10,140</b>	<b>15,080</b>	<b>23,800</b>	
2013_tranche	48,564	47,420	47,420	47,420	<b>8,580</b>	<b>38,840</b>		
2014_tranche	48,651	142,952	142,952	142,952	<b>142,952</b>			

On the option exercise date, the average share price was PLN 132.59.

#### Incentive scheme for 2015-2019

On May 28th 2014, the Annual General Meeting of KRUK passed Resolution No. 26/2014 on setting the rules of an incentive scheme for the years 2015-2019, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association. The incentive scheme for 2015-2019 (the "2015-2019 Scheme") is addressed to the key management personnel of the Parent and Group companies.

Under the 2015–2019 Scheme, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution. The eligible persons comprise members of the Management Board, including the President, as well as Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal

relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants is made.

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

Subscription warrants will be issued in five tranches, one for each year of the reference period, i.e. for the financial years 2015–2019.

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases by no less than 13.00%.

Under the Scheme, the Company may finance purchase of Series F shares by eligible persons on the terms defined in the resolution.

Subscription warrants may be inherited, but may not be encumbered and are not transferable.

In its Resolution of September 8th 2014, the Supervisory Board determined and approved Rules for the Management Stock Option Scheme for 2015-2019.

On September 2nd 2014, the Management Board of KRUK S.A. determined the list of persons who are Members of the Company's Management Board and are eligible to participate in the 2015–2019 Stock Option Scheme (the "Base List of Management Board Members") and the list of persons who are not Members of the Company's Management Board but are eligible to participate in the 2015–2019 Stock Option Scheme (the "Base List of Non-Management Board Members").

### **Tranche 1**

On June 9th 2016, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of a condition set forth in the Stock Option Scheme for offering Tranche 1 Subscription Warrants as a reward for meeting the targets set in the 2015–2019 incentive scheme in 2015. The Supervisory Board declared that the condition was met. On June 17th 2016, in the performance of the 2015–2019 Stock Option Scheme, the Company's Management Board passed a resolution to determine the list of Non-Management Board Members who are Eligible Persons under Tranche 1 Subscription Warrants for 2015.

Acting under the resolution, on June 22nd 2016, the Management Board invited the Eligible Persons who are not Management Board Members to acquire Tranche 1 Subscription Warrants. As a result, 86,435 Subscription Warrants were issued to the Eligible Persons on July 1st 2016.

On August 27th 2016, the Company's Management Board passed a resolution to determine the list of Non-Management Board Members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 as part of the 2015–2019 Stock Option Scheme. In compliance with the Scheme terms, the resolution was approved by a Supervisory Board resolution of September 1st 2016.

On October 27th 2016, the Management Board passed a resolution to amend the list of Management Board Members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 under the 2015–2019 Stock Option Scheme. The resolution was approved by the Supervisory Board's resolution of October 27th 2016. On this basis, the Supervisory Board invited the Management Board

Members to acquire Tranche 1 Subscription Warrants under the 2015–2019 Stock Option Scheme. On October 27th 2016, 20,000 Subscription Warrants were delivered to the Eligible Persons who were Management Board Members.

### Exchange differences on translating subordinates

Exchange differences on translating subordinates include exchange differences on translating foreign operations (translation reserve).

## 24. Earnings per share

### Basic earnings per share

As at December 31st 2016, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 248,663 thousand (2015: PLN 204,227 thousand) and the weighted average number of shares in the period covered by the financial statements of 17,995 thousand (2015: 17,243 thousand). The amounts were determined as follows:

### Net profit attributable to owners of the Parent

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Net profit attributable to owners of the Parent (basic)	248,663	204,227
Net profit attributable to owners of the Parent (diluted)	248,663	204,227

### Weighted average number of ordinary shares

<i>'000</i>	<b>Note</b>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Number of ordinary shares as at Jan 1	23	17,398	17,110
Effect of retirement and issue		259	133
Weighted average number of ordinary shares in period ended Dec 31			17,243
<i>PLN</i>			
Earnings per share		14.08	11.84

## Dividend per share paid

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Dividend paid from profit	35,491	25,938
<i>PLN</i>		
Dividend per share	2,00	1,50

## Diluted earnings per share

As at December 31st 2016, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 248,663 thousand and the weighted average number of shares in the period covered by the financial statements of 18,698 thousand. The amounts were determined as follows:

## Weighted average number of ordinary shares (diluted)

<i>'000</i>	<i>Note</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Weighted average number of ordinary shares in period ended Dec 31	23	17,657	17,243
Effect of issue of unregistered shares not subscribed for		698	550
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		18,355	17,793
<i>PLN</i>			
Earnings per share (diluted)		13.55	11.48

## 25. Liabilities under borrowings and other debt instruments

This note contains information on the Group's liabilities under borrowings and other debt instruments measured at amortised cost. Information on the Group's exposure to currency, liquidity and interest rate risks is presented in Note 29.

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Non-current liabilities</b>		
Secured borrowings	143,246	171,318
Liabilities under debt securities (unsecured)	1,227,027	534,204
Finance lease liabilities	6,812	5,803
	<u>1,377,085</u>	<u>711,325</u>
<b>Current liabilities</b>		
Current portion of secured borrowings	124,106	63,503
Liabilities under debt securities (unsecured)	138,074	155,328
Current portion of finance lease liabilities	7,147	4,855
	<u>269,327</u>	<u>223,686</u>

### Terms and repayment schedule of borrowings and other debt instruments

<i>PLN '000</i>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Maturity</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.0 pp; 1M EURIBOR + margin of 2.2–2.4 pp	2024	267,352	234,821
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–4.6 pp	2020	1,365,101	689,532
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.39–3.58 pp	2019	13,959	10,658
				<u>1,646,412</u>	<u>935,011</u>

## Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
<b>As at December 31st 2016</b>			
up to 1 year	7,323	176	7,147
from 1 to 5 years	7,028	216	6,812
	14,351	392	13,959
<b>As at December 31st 2015</b>			
up to 1 year	4,977	122	4,855
from 1 to 5 years	5,943	140	5,803
	10,920	262	10,658

## Security over assets

Security over assets

PLN '000

	Dec 31 2016	Dec 31 2015
Registered pledge over purchased portfolios and assignment of claims financed with the facility, registered pledge over shares in SeCapital S.à r.l.	627,439	459,266
Property, plant and equipment under finance leases	13,959	10,658
	641,398	469,924

## 26. Employee benefit obligations

PLN '000

	Dec 31 2016	Dec 31 2015
Salaries and wages payable	12,642	9,471
Liabilities to the Social Security Institution	5,336	5,083
Personal income tax	3,437	1,378
Accrued holidays	4,394	4,050
Accrued salaries and wages (bonuses)	8,408	9,086
Special accounts	55	171
	34,396	29,239



## Changes in accrued employee benefits

### Change in accrued holidays

Value as at Jan 1 2015	3,581
Increase	3,946
Use	(3,477)
Value as at Dec 31 2015	<u>4,050</u>
Value as at Jan 1 2016	4,050
Increase	3,842
Use	(3,498)
Value as at Dec 31 2016	<u>4,394</u>

### Change in accrued salaries and wages (bonuses)

Value as at Jan 1 2015	10,461
Increase	22,272
Use	(22,776)
Reversal	(871)
Value as at Dec 31 2015	9,086
Value as at Jan 1 2016	9,086
Increase	7,887
Use	(5,104)
Reversal	(3,461)
Value as at Dec 31 2016	<u>8,408</u>

## 27. Provisions

<i>PLN '000</i>	<u>Other provisions</u>
Value as at Jan 1 2015	264
Recognition	-
Value as at Dec 31 2015	<u>264</u>
Value as at Jan 1 2016	264
Reversal	(264)
Value as at Dec 31 2016	<u>-</u>

## Tax risk

Regulations concerning the tax on goods and services tax, income tax and the burden of social insurance are subject to frequent changes. These frequent changes result in lack of appropriate benchmarks, inconsistent interpretations and few established precedents that could be applied. The current regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies and companies and government bodies.

Tax settlements and other areas of activity (for example, customs or foreign exchange) may be subject to inspection bodies that are entitled to impose high penalties and fines, and any additional tax liabilities resulting from inspections must be paid together with high interest. These conditions cause that tax risk in Poland is higher than in countries with more mature tax systems.

Consequently, the amounts reported and disclosed in the financial statements may change in the future as a result of a final decision of the tax audit.

The Group believes that paid within all applicable taxes, penalties and interest adequately. For all uncertain tax positions for which current legislation and communication with the tax office does not provide sufficient guidance, the Group carried out an analysis of current tax laws and interpretations and made their proper use.

Tax settlements may be inspected by a period of five years in Poland and the Czech Republic, and for seven years in Romania and Slovakia. As a result, the amounts disclosed in the financial statements may change at a later date after the final decision of the tax authorities.

On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). The purpose of GAAR is to prevent the establishment and use of artificial schemes set up to avoid payment of taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit, which in the given circumstances is contrary to the object and purpose of tax laws. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial. Any (i) unjustified dividing of transactions, (ii) engaging of intermediaries in spite of a lack of economic or business rationale for doing so, (iii) presence of elements that mutually cancel or set off each other, and (iv) any other measures having a similar effect, may be treated as an indication that an artificial scheme subject to the provisions of GAAR has been established. The new regulations will require considerably more judgement in assessing the tax effects of transactions.

GAAR applies to transactions made after its effective date as well as to transactions executed before the effective date of GAAR but in respect of which benefits were or continue to be derived after that date. The implementation of GAAR will allow Polish tax inspection authorities to challenge schemes and arrangements made by corporate taxpayers, such as restructuring or reorganisation of corporate groups.

## 28. Trade and other payables

Current liabilities  
PLN '000

	Dec 31 2016	Dec 31 2015
Trade payables to other entities	83,159	55,258
Deferred income	6,130	4,368
Tax and duties payable	49,301	9,662
Accrued expenses	3,469	2,188
Other liabilities	27,189	12,078
	169,248	83,555

For information on the exposure to currency risk and liquidity risk associated with liabilities, see Note 29.

## 29. Financial instruments

### Credit risk

#### Exposure to credit risk

Carrying amount of financial assets reflects the maximum exposure to credit risk. Below is presented the maximum exposure to credit risk as at the end of the reporting periods:

PLN '000

	<b>Note</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Financial instruments at fair value through profit or loss	18	603,658	724,832
Financial assets measured at amortised cost	18	2,037,288	873,300
Loans	18	28,476	22,013
Receivables	21	41,597	35,110
		2,711,019	1,655,255

Below is presented the maximum exposure to credit risk by geographical segment as at the end of the reporting periods:

PLN '000

	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Poland	1,363,792	1,158,042
Romania	765,021	424,313
Czech Republic	113,920	60,977
Italy	343,164	-
Other foreign markets	125,019	12,357
	2,711,019	1,655,689

## Impairment losses

The maturity structure of trade and other receivables as at the end of the reporting periods is presented below:

PLN '000	Gross value	Impairment loss	Gross value	Impairment loss
	Dec 31 2016	Dec 31 2016	Dec 31 2015	Dec 31 2015
Not due	35,690	-	31,159	-
Past due, 0-30 days	2,061	-	1,647	-
Past due, 31-90 days	862	-	1,379	-
Past due, 91-180 days	883	-	336	-
Past due, 181-365 days	1,208	178	407	178
Past due, over one year	1,688	617	1,370	1,010
	<u>44,182</u>	<u>795</u>	<u>36,298</u>	<u>1,188</u>

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Impairment loss as at Jan 1	1,188	848
Impairment loss recognised in period	475	705
Reversal of impairment loss	(862)	(319)
Use of impairment loss	(6)	(46)
Impairment loss as at Dec 31	<u>795</u>	<u>1,188</u>

The Group recognises impairment losses on receivables past due by more than 180 days based on historical payment data. In addition, the Group recognises impairment losses on receivables from all companies which are subject to bankruptcy or liquidation proceedings, as well as for receivables in litigation.

The Group does not recognise impairment losses on trade receivables and debt securities held to maturity as long as there is a high probability that they will be repaid. When a receivable or an investment is deemed unrecoverable, a relevant amount is charged to expenses.

Below are presented changes in impairment losses on loans advanced:

PLN '000	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015
Impairment loss as at Jan 1	2,237	922
Impairment loss recognised in period	8,952	1,315
Reversal of impairment loss	-	-
Impairment loss as at Dec 31	<u>11,189</u>	<u>2,237</u>

As at December 31st 2016, the gross value of loans advanced to individuals was PLN 39,655 thousand (December 31st 2015: PLN 24,250 thousand). The Group recognised impairment losses on loans of PLN 11,189 thousand as at December 31st 2016 (2015: PLN 2,237 thousand). The amount of impairment losses is determined for the entire portfolio based on estimated recoverability of advanced loans, which is established principally on the basis of loan delinquency periods.

## Liquidity risk

Below are presented the contractual terms of financial liabilities:

### As at December 31st 2016

PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
<b>Financial liabilities other than derivative instruments</b>							
Secured borrowings	267,351	281,436	12,507	10,386	20,299	238,138	106
Unsecured bonds in issue	1,365,101	1,630,185	151,457	46,685	174,803	967,363	289,876
Finance lease liabilities	13,959	14,321	3,953	3,252	4,610	2,506	-
Trade and other payables	169,248	169,248	169,248	-	-	-	-
	<u>1,815,300</u>	<u>2,092,776</u>	<u>335,966</u>	<u>59,484</u>	<u>199,337</u>	<u>1,208,007</u>	<u>289,982</u>

### As at December 31st 2015

PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
<b>Financial liabilities other than derivative instruments</b>							
Secured borrowings	234,821	273,849	4,644	3,188	6,323	119,832	139,863
Unsecured bonds in issue	689,532	807,635	102,082	88,552	159,494	250,395	207,111
Finance lease liabilities	10,658	12,459	2,296	2,496	4,380	3,287	-
Hedge derivatives	589	589	589	-	-	-	-
Trade and other payables	83,555	83,555	83,555	-	-	-	-
	<u>1,019,155</u>	<u>1,178,087</u>	<u>193,166</u>	<u>94,236</u>	<u>170,197</u>	<u>373,514</u>	<u>346,974</u>

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2015 and December 31st 2016, respectively.

The Group does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

As at December 31st 2016, the undrawn revolving credit facility limit available to the Group was PLN 415,024 thousand (2015: PLN 62,620 thousand). The undrawn limit is available until October 30th 2020.

## Currency risk

### Exposure to currency risk

The Group's exposure to currency risk, which is attributable to financial instruments denominated in foreign currencies and investments in foreign subsidiaries, calculated based on the exchange rates effective at the end of the reporting period is presented below:

'000	Dec 31 2016			Dec 31 2015		
	EUR	RON	CZK	EUR	RON	CZK
Trade receivables	206	-	-	5	-	-
Cash	4,874	17,285	2,619	39,299	51,440	1,874
Financial assets	529,687	752,975	44,371	21,519	424,313	36,666
Trade and other payables	(201,470)	-	-	(100)	(45,014)	-
Liabilities under borrowings and other debt instruments	(223)	-	(5)	(65,904)	-	-
Exposure to currency risk	(333,074)	770,260	46,985	(5,181)	430,739	38,540

The following exchange rates of the key foreign currencies were adopted during the preparation of these financial statements:

PLN	Average exchange rates		End of period (spot rates)	
	Jan 1 2016 - Dec 31 2016	Jan 1 2015 - Dec 31 2015	Dec 31 2016	Dec 31 2015
EUR 1	4.3757	4.1848	4.4240	4.2615
USD 1	3.9680	3.7928	4.1793	3.9011
RON 1	0.9739	0.9421	0.9749	0.9421
CZK 1	0.1618	0.1534	0.1637	0.1577
HUF 100	1.4034	1.3529	1.4224	1.3601

As at December 31st 2016, appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an increase (decrease) of equity and profit before tax by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN '000

	<b>Other comprehensive income</b>	<b>Profit or loss of current period</b>
<b>Dec 31 2016</b>		
EUR (10% appreciation of PLN)	124	(33,307)
RON (10% appreciation of PLN)	(43)	(77,026)
CZK (10% appreciation of PLN)	73	(4,771)
<b>Dec 31 2015</b>		
EUR (10% appreciation of PLN)	14	518
RON (10% appreciation of PLN)	(757)	(43,074)
CZK (10% appreciation of PLN)	(23)	(3,832)

## Interest rate risk

The structure of interest-bearing financial instruments as at the reporting date is presented below:

PLN '000

	<b>Carrying amount</b>	
	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
<b>Fixed-rate financial instruments</b>		
Financial assets	2,107,361	930,423
Financial liabilities	(268,574)	(83,555)
	<u>1,839,774</u>	<u>846,868</u>
<b>Floating-rate financial instruments</b>		
Financial assets	603,658	724,832
Financial liabilities	(1,546,726)	(935,011)
	<u>(1,546,726)</u>	<u>(811,011)</u>

## Sensitivity analysis of fair value of fixed-interest-rate financial instruments.

The Group does not hold any fixed-interest-rate financial instruments measured at fair value through profit or loss, nor does it execute transactions with derivatives (IRSs) serving as security for fair value. Therefore, a change of an interest rate would have no material effect on current period's profit or loss.

## Sensitivity analysis of cash flows from floating-interest-rate financial instruments

A change of an interest rate by 100 basis points would increase (decrease) equity and pre-tax profit over the loan term by the amounts shown below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

PLN '000

	Profit or loss of current period		Equity excluding profit or loss of current period	
	up by 100 bps	down by 100 bps	up by 100 bps	down by 100 bps
<b>Dec 31 2016</b>				
Floating-rate financial instruments	(54,771)	54,771	-	-
<b>Dec 31 2015</b>				
Floating-rate financial instruments	(33,584)	33,584	-	-

## Fair values

### Comparison between fair values and carrying amounts

The table below presents a comparison between fair values of financial assets and liabilities and values presented in the statement of financial position:

PLN '000

	Dec 31 2016		Dec 31 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets and liabilities measured at fair value</b>				
Financial instruments at fair value through profit or loss	603,658	603,658	724,832	724,832
Hedge derivatives	0	0	(589)	(589)
	<u>603,658</u>	<u>603,658</u>	<u>724,243</u>	<u>724,243</u>
<b>Financial assets and liabilities not measured at fair value</b>				
Financial assets measured at amortised cost	2,037,288	1,967,113	873,300	872,342
Investment property	6,780	6,780	434	434
Loans and receivables	71,060	71,060	57,123	57,123
Secured bank borrowings	(267,352)	(267,352)	(234,821)	(234,821)
Unsecured bonds in issue	(1,365,101)	(1,366,085)	(689,532)	(689,532)
Finance lease liabilities	(13,959)	(13,959)	(10,658)	(10,658)
Trade and other payables	(169,248)	(169,248)	(83,555)	(83,555)
	<u>298,482</u>	<u>227,204</u>	<u>(87,709)</u>	<u>(88,667)</u>

For information on the rules applied to the measurement of fair value, see Note 3.



## Interest rates used for the assessment of fair value

	Dec 31 2016	Dec 31 2015
Financial assets at fair value and measured at amortised cost	5.77% - 146.99%	7.94% - 321.14%
Financial assets measured at amortised cost for the purpose of their disclosure at fair value	2.35%-64.57%	2.35%-64.57%
Borrowings	1.83%-2.66%	2.00%-4.65%
Unsecured bonds in issue	4.23%-6.33%	4.50%-6.32%
Finance lease liabilities	1.39%-3.58%	1.39%-3.58%

### Hierarchy of financial instruments measured at fair value

The table below presents financial instruments recognised in the statement of financial position at fair value according to the valuation method applied. Depending on the level of valuation, the following inputs were used in the valuation models.

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities,
- Level 2: inputs for given assets and liabilities, other than quoted prices from Level 1, observable directly (e.g. as prices) or indirectly (e.g. as provisions derivative),
- Level 3: inputs that are not based on observable market prices (unobservable inputs).

In 2014–2016, no transfers were made between the levels.

As at Dec 31 2015	Level 3
Financial assets at fair value through profit or loss	724,832
Financial assets measured at amortised cost	872,342
As at Dec 31 2016	
Financial assets at fair value through profit or loss	603,658
Financial assets measured at amortised cost	1,967,113

Fair value of debt portfolios purchased is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio. The rate used for discounting is calculated as an internal rate of return on an investment as at the date of acquisition of a portfolio and is verified so that it includes the present risk free rate and the present risk premium associated with the credit risk for each portfolio.

## 30. Operating lease

### Operating lease agreements with the Group as a lessee

Below are detailed minimum lease payments under irrevocable operating lease agreements:

<i>PLN '000</i>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
up to 1 year	5,837	4,015
from 1 to 5 years	16,225	5,043
	<u>22,062</u>	<u>9,058</u>

- Agreement for the use of property with an area of 2,216 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed for a term of ten years, is terminable after the initial period of five years. The annual cost of use is PLN 1,013 thousand.
- Agreement for the use of property with an area of 665 square metres located in Targoviste, Romania, executed with ARTA S.C.M. of Targoviste, Romania, on August 15th 2008. The annual cost of use is EUR 27,930 thousand.
- Agreement executed with S.C. SEMA PARC S.A. of Bucharest on March 13th 2009. The annual cost of use of the 280 square metre property is EUR 26,880.
- Agreement for the use of property with an area of 2,425 square metres, located at ul. Wołowska 4-20, Wrocław, executed with DEVCO Sp. z o.o. on December 10th 2010. The agreement was executed for a term of three years with no early termination option. The annual cost of use is approximately EUR 460 thousand. After the initial term, the Agreement is now effective for indefinite time.
- Agreement executed with Palmer Capital Central European Properties as. of Prague on November 4th 2014. The annual cost of use of the 872.55 square metre property is CZK 1,685 thousand.

## 31. Related-party transactions

### *Remuneration of the management personnel - the Management Board*

Below is presented information on the remuneration payable to the members of the Company's key management personnel:

<i>PLN '000</i>	<b>Jan 1 2016 - Dec 31 2016</b>	<b>Jan 1 2015 - Dec 31 2015</b>
Base pay/ managerial contract (gross)	2,175	4,345
Provisions for employee bonuses for current year	1,265	2,287
Other - medical services and other	110	87
Share based payments	7,702	13,332
	<u>11,252</u>	<u>20,051</u>

### Other transactions with the management personnel

As at December 31st 2016, members of the Management Board and persons closely related to them jointly held 13% of the total voting right at the Parent's General Meeting (December 31st 2015: 13%).

Certain members of the management personnel and their relatives hold positions in other entities (outside of the Group), enabling them to control or significantly influence the financial and operating policies of such entities.

Some of such entities executed business transactions with the Group in the reporting period. The terms and conditions of such transactions did not differ from terms and conditions of similar transactions carried out or which may be carried out on an arm's length basis with non-related parties. Services purchased from those entities in 2016 totalled PLN 518 thousand.

On January 5th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.

On April 4th 2016, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A., given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Krupa had sold 17,500 shares in KRUK S.A., at the average price of PLN 182.85 per share, in an ordinary session transaction executed on the Warsaw Stock Exchange on March 31st 2016, and 30,000 shares in KRUK S.A., at the average price of PLN 178 per share, in a block trade executed on the Warsaw Stock Exchange on April 1st 2016.

On July 15th, July 26th and September 30th 2016, the Company received notifications from Piotr Krupa, President of the KRUK S.A. Management Board and a major shareholder in the Company, concerning sale of KRUK S.A. shares in ordinary trades executed on the Warsaw Stock Exchange on July 13th 2016 (32,000 shares for an average price of PLN 209.00), July 25th 2016 (10,000 shares for an average price of PLN 205.90 per share), and September 29th 2016 (9,000 shares for an average price of PLN 245.72 per share).

## 32. Share-based payments

PLN '000

<b>Period ending</b>	<b>Value of benefits granted</b>
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,578
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Total	36,658

### 33. Composition of the Group

#### Subsidiaries

PLN '000	Country	Shareholdings (%)	
		Dec 31 2016	Dec 31 2015
SeCapital S.à r.l. *	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
SeCapital Polska Sp. z o.o.	Poland	100%	100%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	100%	100%
InvestCapital Malta Ltd *	Malta	100%	100%
RoCapital IFN S.A. *	Romania	100%	100%
Kruk Deustschland Gmbh	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l.	Luxembourg	100%	100%
Presco Investments S.a.r.l.*	Luxembourg	100%	-
Presco Investments I NS FIZ*	Poland	100%	-
Credit Base International S.r.l	Italy	100%	-
Elleffe Capital S.r.l.*	Italy	100%	-
Espand Soluciones de Gestion S.L.	Spain	100%	-

\* Subsidiaries in which the Company indirectly holds 100% of the share capital.

On December 23rd 2015, KRUK S.A.'s subsidiary Secapital S.a r.l. entered into an investment agreement with Presco Investments Limited of Malta.

The Parties entered into the agreement in connection with a transaction to sell 100% of shares, free of any encumbrances, unlimited and free of any third-party rights, in Presco Investments S.a r.l., as well as of the right to debt portfolios purchased in Poland and held by the seller and P.R.E.S.C.O. Investment I NS FIZ, comprising two million cases with a total nominal value of PLN 2.7bn.

Pursuant to the agreement, the seller sold, and the buyer purchased, 390,050 shares with a total par value of PLN 39,005,000, for a price of PLN 193.7m. The shares confer the right to debt portfolios purchased in Poland with a total nominal value of PLN 2.7bn. On April 15th 2016, Secapital S.a r.l., a subsidiary of KRUK S.A., and Presco Investments Limited of Malta signed a representation on fulfilment of the condition precedent and transfer of shares, as a result of which Secapital S.a r.l. became the owner of all shares in Presco Investments S.a.r.l. and acquired the right to the debt portfolios of P.R.E.S.C.O. Investment I NS FIZ.

P.R.E.S.C.O. Investment I NS FIZ is entered in the Register of Investment Funds maintained by the Regional Court in Warsaw, 7th Civil and Registry Division, under entry No. RFI 640. Since April 15th 2016, KRUK S.A.'s subsidiary SeCapital S.a.r.l. has been the sole holder of the Fund's investment certificates, holding 39,878,730 certificates.

The parties agreed that the payment of a portion of the price, totalling approximately PLN 42,000 thousand, will be deferred to secure the performance of the obligations under the agreement in the transitional period, in accordance with the agreement. The deferred amount, including interest calculated on arm's length terms, will be settled in accordance with the agreement.

The agreement was signed on December 23rd 2015 and control was taken over on April 15th 2016. The acquired companies were first included in the Group's consolidated financial statements as at the end of April 2016, in accordance with IAS 27.

Acquisition of the two companies was accounted for in accordance with IFRS 3. Both acquirees hold only debt portfolios.

In the current legal framework, a company cannot sell debt portfolios without the buyer losing the right to pursue claims in legal cases that are already pending, therefore the KRUK Group entered into a transaction to acquire P.R.E.S.C.O. Investment I NS FIZ and Presco Investments S.a r.l. Owing to such transaction structure (that the Group was forced to use in view of the applicable laws), it was possible to ensure the continuity of operations of P.R.E.S.C.O. Investment I NS FIZ and Presco Investments S.a r.l. Prior to the transaction, both acquirees were 'cleared' of all other assets and liabilities. This confirms that the economic substance of the transaction was to purchase debt portfolios. In view of the economic substance of the transaction (purchase of debt portfolios), the KRUK Group recognised no goodwill on the acquisition. The difference between FV of the acquired portfolios as at the date of estimation of acquisition cost and FV as at the date of acquisition of control was taken in full to the statement of profit or loss.

On July 29th 2016, the Management Board of KRUK S.A., the sole shareholder of NOVUM FINANCE sp. z o.o., resolved to revoke the pending liquidation of that company. The relevant resolution was passed by the General Meeting. Ms Agnieszka Kulon was appointed member of the Company's Management Board.

On November 7th 2016, the Parent concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy, for acquisition of 100% of the shares in CBI. The agreement provides for the acquisition of 100% of the shares in CBI, free and clear of any encumbrances, restrictions or third-party rights. CBI's business involves the management of purchased debt portfolios and credit management services in Italy. Under the Agreement, KRUK S.A. will also acquire the entire share capital of Elleffe Capital S.r.l. of La Spezia, Italy (CBI's subsidiary), whose business activity includes investment in debt or debt-backed assets.

On December 20th 2016, the Parent concluded an agreement with the shareholders of Espand Soluciones de Gestion S.L. of Madrid, Spain, for acquisition of 100% of the shares in Espand. The agreement provides for the acquisition of 100% of the shares in Espand, free and clear of any encumbrances, restrictions or third-party rights. Espand's business involves the management of purchased debt portfolios and credit management services in Spain.

### 34. Auditor's fees

PLN '000

	Dec 31 2016	Dec 31 2015
Mandatory audit of full-year financial statements and review of half-year financial statements	1,085	481
Consultancy services	25	9
	<u>1,110</u>	<u>490</u>

### 35. Contingent liabilities

Following the execution of a revolving facility agreement between PROKURA NS FIZ, KRUK S.A. and mBank S.A. on July 2nd 2015 to establish security for the liabilities of Prokura NS FIZ under the agreement:

- On January 4th 2016, PROKURA NS FIZ and mBank S.A. concluded four agreements on a registered pledge over a set of rights. The pledges were entered in the pledge register. The registered pledges secure claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 33,151 thousand.
- On March 2nd 2016, PROKURA NS FIZ and mBank S.A. concluded an agreement on a registered pledge over a set of rights. On March 14th 2016, an application was filed with the court to enter the pledge in the pledge register. The registered pledge secures claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the amount of the pledged assets in KRUK S.A.'s accounting books was PLN 27,161 thousand.
- On July 6th 2016, PROKURA NS FIZ and mBank S.A. concluded two agreements on a registered pledge over a set of rights. The pledges were entered in the pledge register. The registered pledges secure claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 23,109 thousand.
- On July 6th 2016, KRUK S.A. and mBank S.A. signed Annex 1 to a surety agreement of July 2nd 2015, announced by the Company in Current Report No. 39/2015. Under the annex, the validity of the surety provided by KRUK S.A. for up to PLN 150m in respect of obligations incurred by PROKURA NS FIZ towards mBank S.A. under a credit facility agreement was extended to July 1st 2024.

The set of rights is presented in Note 26.

On June 20th 2016, in connection with a non-revolving working capital facility agreement executed by its subsidiary PROKURA NS FIZ, KRUK S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. In accordance with the surety agreement, KRUK S.A. guaranteed liabilities towards the Bank under the facility agreement, whether existing at the time of the surety execution or arising in the future, including in particular interest and costs of court and enforcement proceedings incurred by the Bank, and thus became a joint and several debtor in respect of those liabilities. The surety was issued for up to PLN 52,971,106.80. It will expire not later than on December 19th 2022.

On July 8th 2016, PROKURA NS FIZ entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. on a registered pledge over a set of rights. On July 14th 2016, an application was filed with the court to enter the pledge in the pledge register. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 43,189 thousand.

In connection with a PLN 10.3m share capital cancellation completed on December 20th 2016 in InvestCapital Malta Ltd., on December 20th 2016 KRUK S.A. issued a corporate guarantee to InvestCapital Malta for up to PLN 10.3m. The guarantee expired on March 20th 2017 after the share cancellation was declared final.

### 36. Events subsequent to the reporting date

On January 16th 2017, a firm agreement was signed between ItaCapital S.r.l. of Milan and Banca IFIS of Venice. The Agreement provides for purchase of unsecured consumer loan debts with a total nominal value of EUR 744.6m.

The Agreements are subject to a condition precedent that the debts covered by the Agreements will be assigned to the Buyer upon payment of the Price. In accordance with the Agreement, the Price will be paid within 10 days from the Agreement date. The Agreement does not provide for any contractual penalties. Other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

In 2017, Kruk SA He entered into with Bank Zachodni WBK SA two contracts currency interest rate swaps (CIRS). The contracts hedge foreign exchange risk and interest rate risk at the same time through the efficient conversion of the Company's debt incurred in PLN in EUR:

- contract signed on 9 January 2017. Protects the coupon depends on the variable rate WIBOR 3M for PLN 100 million nominal amount of the bonds. The Company is liable to pay a fixed interest rate of 3.06%, while BZ WBK is the payer of the variable interest rate WIBOR 3M plus a margin of 3.10%. Interest payments are made in 3-month interest periods. The settlement of the contract will involve the exchange of protected denomination and will take place on 4 June 2021, the date the Company receives from BZ WBK PLN 100 million, and will pay for BZ WBK 22.8 million.
- contract signed on 13 January 2017. Protects the coupon depends on the variable rate WIBOR 3M for PLN 90 million nominal amount of the bonds. The Company is liable to pay a fixed interest rate of 2.97%, while BZ WBK is the payer of the variable interest rate WIBOR 3M plus a margin of 3.00%. Interest payments are made in 3-month interest periods. The settlement of the contract will involve the exchange of protected denomination and will take place on 10 November 2021., The date the Company receives from BZ WBK PLN 90 million, and will pay for BZ WBK 20.6 million.

**Piotr Krupa**  
*President of the  
Management Board*

**Agnieszka Kułton**  
*Member of the Management  
Board*

**Urszula Okarma**  
*Member of the  
Management Board*

**Iwona Słomska**  
*Member of the  
Management Board*

**Michał Zasepa**  
*Member of the  
Management  
Board*

**Katarzyna Raczkiewicz**  
*Person responsible for maintaining  
the accounting records*

*Wrocław, February 27th 2017*



