The KRUK Group
Consolidated financial statements
for the financial year ended December 31st 2018

Prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union

The KRUK Group

December 31st 2018

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Consolidated statement of profit or loss

For the financial year ended December 31st 2018
PLN '000

	Note	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Continuing operations			
Revenue	5	1,164,811	1,055,453
including interest income on debt portfolios calculated using the effective interest rate method		*873,403*	*n/a*
including interest income on other financial instruments calculated using the effective interest rate method		*14,459*	*n/a*
Other income	6	4,876	5,896
		1,169,687	1,061,349
Merchandise and materials sold		-	-
Employee benefits expense	9	(309,694)	(257,013)
Depreciation and amortisation	13.14	(19,923)	(18,677)
Services	7	(152,035)	(134,462)
Other expenses	8	(209,764)	(230,426)
		(691,416)	(640,578)
Operating profit		478,271	420,771
Finance income	10	148	310
Finance costs	10	(125,879)	(85,897)
Net finance costs		(125,731)	(85,587)
Profit before tax		352,540	335,184
Income tax	11	(22,128)	(39,987)
Net profit for period		330,412	295,198
Net profit attributable to:			
Owners of the Parent		330,016	295,095
Non-controlling interests		396	103
Net profit for period		330,412	295,198
Total comprehensive income attributable to:			
Owners of the Parent		330,016	295,095
Non-controlling interests		396	103
Total comprehensive income for period		330,412	295,198
Earnings per share			
Basic (PLN)	23	17.51	15.74
Diluted (PLN)	23	17.09	15.31

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 financial year ended December 31st 2018
PLN '000

	Note	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Net profit for period		330,412	295,198
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	*10*	(2,850)	(56,027)
Cash flow hedges		(11,131)	7,262
Income tax on derivatives		1,380	(1,380)
Items that will not be reclassified subsequently to profit or loss			-
Income tax on other comprehensive income		-	-
Other comprehensive income for period, net		(12,601)	(50,145)
Total comprehensive income for period		317,811	245,053
Total comprehensive income attributable to:			
Owners of the Parent		317,415	244,950
Non-controlling interests		396	103
Total comprehensive income for period		317,811	245,053
Comprehensive income/ (loss) per share			
Basic (PLN)		16,87	13.46
Diluted (PLN)		16,46	12.98

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 financial position

As at December 31st 2018

PLN '000

	Note	Dec 31 2018	Dec 31 2017
Assets			
Cash and cash equivalents	20	147,302	173,284
Trade receivables	19	28,143	16,623
Investments	16	4,156,970	3,169,303
Other receivables	19	23,088	64,244
Inventories	18	197	494
Property, plant and equipment	13	26,354	28,669
Goodwill	15	62,010	54,003
Other intangible assets	14	33,877	26,830
Other derivatives	25	1,450	8,637
Other assets	21	2,786	18,042
Total assets		4,482,177	3,560,128
Equity and liabilities			
Liabilities			
Other derivatives	25	3,870	1,375
Trade and other payables	27	176,054	143,449
Employee benefit obligations	26	44,678	28,715
Income tax payable		15,600	14,401
Liabilities under borrowings and other debt instruments	24	2,500,043	1,897,223
Deferred tax liability	18	9,182	14,444
Total liabilities		2,749,427	2,099,607
Equity			
Share capital	23	18,887	18,808
Share premium		300,097	293,581
Cash flow hedging reserve		(3,869)	5,882
Translation reserve		(53,769)	(56,619)
Other capital reserves		94,924	86,805
Retained earnings		1,376,084	1,111,961
Equity attributable to owners of the Parent		1,732,354	1,460,418
Non-controlling interests		396	104
Total equity		1,732,750	1,460,522
Total equity and liabilities		4,482,177	3,560,128

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 changes in equity

For the financial year ended December 31st 2018
PLN '000

	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Equity attributable to owners of the Parent**	Non-controlling interests	**Total equity**
Equity as at Jan 1 2017		18,744	288,326	-	(592)	76,659	854,354	1,237,490	14	1,237,504
Comprehensive income for period										
Net profit for period		-	-	-	-	-	295,095	295,095	103	295,198
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	(56,027)	-	-	(56,027)	-	(56,027)
- Valuation of hedging instruments		-	-	5,882	-	-	-	5,882	-	5,882
Total other comprehensive income		-	-	5,882	(56,027)	-	-	(50,145)	-	(50,145)
Total comprehensive income for period		-	-	-	(56,027)	-	295,095	244,950	103	245,053
Contributions from and distributions to owners										
- Payment of dividends		-	-	-	-	-	(37,488)	(37,488)	(13)	(37,501)
- Issue of shares		64	5,255	-	-	-	-	5,319	-	5,319
- Share-based payments		-	-	-	-	10,147	-	10,147	-	10,147
Total contributions from and distributions to owners		64	5,255	-	-	10,147	(37,488)	(22,022)	(13)	(22,035)
Total equity as at Dec 31 2017		18,808	293,581	5,882	(56,619)	86,806	1,111,961	1,460,418	104	1,460,523
Adjustment on transition to IFRS 9		-	-	-	-	-	28,147	28,147	-	28,147
Equity as at Jan 1 2018 following changes in accounting policies		18,808	293,581	5,882	(56,619)	86,806	1,140,108	1,488,565	104	1,488,670
Comprehensive income for period										
Net profit for period		-	-	-	-	-	330,016	330,016	396	330,412
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	2,850	-	-	2,850	-	2,850
- Valuation of hedging instruments		-	-	(9,751)	-	-	-	(9,751)	-	(9,751)
Total other comprehensive income		-	-	(9,751)	2,850	-	-	(6,901)	-	(6,901)
Total comprehensive income for period		-	-	-	2,850	-	330,016	323,115	396	323,511
Contributions from and distributions to owners										
- Payment of dividends	*23*	-	-	-	-	-	(94,040)	(94,040)	(104)	(94,144)
- Issue of shares	*22*	79	6,516	-	-	-		6,595	-	6,595
- Share-based payments	*32*	-	-	-	-	8,118	-	8,118	-	8,118
Total contributions from and distributions to owners		79	6,516	-	-	8,118	(94,040)	(79,327)	(104)	(79,431)
Total equity as at Dec 31 2018		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750

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 financial year ended December 31st 2018

PLN '000	*Note*	Jan 1 2018 – Dec 31 2018	Jan 1 2017 – Dec 31 2017
Cash flows from operating activities			
Net profit for period		330,412	295,198
Adjustments			
Depreciation of property, plant and equipment	*13*	11,206	10,941
Amortisation of intangible assets	*14*	8,717	7,736
Net finance costs		110,255	66,999
(Gain)/loss on sale of property, plant and equipment		(1,547)	(916)
Equity-settled share-based payments	*32*	8,118	10,147
Income tax	*11*	22,128	39,987
Change in loans granted	*16*	(19,192)	3,604
Change in investments in debt portfolios and property	*16*	(955,235)	(552,668)
Change in inventories	*18*	297	(9)
Change in trade and other receivables	*19*	47,393	(39,270)
Change in other assets	*21*	15,256	(12,385)
Change in trade and other payables	*28*	32,605	(26,389)
Change in employee benefit obligations	*26*	15,963	(5,683)
Cash flows from operating activities of newly acquired companies		(2,235)	-
Income tax paid		(26,191)	(20,657)
Net cash from operating activities		(402,050)	(223,365)
Cash flows from investing activities			
Interest received	*10*	148	310
Sale of intangible assets and property, plant and equipment		7,776	4,811
Acquisition of shares	*15*	(5,772)	-
Purchase of intangible assets and property, plant and equipment	*13.14*	(28,356)	(24,641)
Net cash from investing activities		(26,204)	(19,520)
Cash flows from financing activities			
Net proceeds from issue of shares	*22*	6,595	5,255
Proceeds from issue of debt securities	*24*	65,000	168,391
Increase in borrowings	*24*	2,036,525	1,233,371
Repayment of borrowings	*24*	(1,398,074)	(1,005,860)
Payments under finance lease contracts	*24*	(2,606)	(7,904)
Payment of dividends	*23*	(94,144)	(37,501)
Redemption of debt securities	*24*	(115,000)	(135,000)
Interest paid		(96,025)	(71,968)
Net cash from financing activities		402,271	148,784
Total net cash flows		(25,982)	(94,101)
Cash and cash equivalents at beginning of period		173,284	267,384
Cash and cash equivalents at end of period	*20*	147,302	173,284

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

Significant accounting policies and other explanatory notes

1. Parent

Name:
KRUK Spółka Akcyjna ("KRUK S.A.," the "Company" or the "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, 53-230 Wrocław, Poland
Date of registration: September 7th 2005
Entry number: KRS 0000240829

Principal business activities of the Parent and its 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.

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 2018 include the financial statements of the Parent and its subsidiaries (jointly the "Group" or the "KRUK Group").

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

PLN '000	Country	Shareholding (%) Dec 31 2018	Dec 31 2017
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%
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%
InvestCapital Ltd *	Malta	100%	100%
RoCapital IFN S.A.*	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.L.	Spain	100%	100%
ProsperoCapital S.a.r.l. **	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
P.R.E.S.C.O INVESTMENT I NS FIZ*	Poland	100%	100%
Elleffe Capital S.r.l.*	Italy	100%	100%
BISON NS FIZ*	Poland	100%	100%
Corbul S.r.l***	Romania	-	-
Zielona Perła Sp. z o.o.	Poland	100%	-
AgeCredit S.r.l.	Italy	100%	-

* Subsidiaries in which the Company indirectly holds 100% of the share capital.
** ProsperoCapital S.a.r.l is a party to a joint arrangement (Note 16).
*** The Parent controls the company through a personal link.

On April 16th 2018, KRUK S.A. acquired control of AgeCredit S.r.l. of Cesena, Italy, by entering into an agreement to buy a 51% interest in the company. The agreement envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, KRUK S.A. purchased the remaining 49% of shares in AgeCredit S.r.l., thus acquiring in total 100% of the company shares, and registered the acquisition. AgeCredit is a credit management company operating in Italy.

2. Basis of preparation

2.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union.

These consolidated financial statements were authorised for issue by the Management Board of the Parent (the "Management Board") on March 7th 2019.

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.

2.2. Basis of valuation

These consolidated financial statements have been prepared for the reporting period from January 1st 2018 to December 31st 2018. The comparative data is presented as at December 31st 2017 and for the period from January 1st 2017 to December 31st 2017.

These consolidated financial statements have been prepared on the following bases of measurement:

- amortized cost determined using the effective interest rate method for:
  - purchased or originated credit impaired assets (less allowance for expected credit losses);
  - financial assets under the business model which purpose is to collect contractual cash flows;
  - other financial liabilities
- fair value for derivative financial instruments

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 make 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 those 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 an estimate is changed.
Information on estimates and judgements concerning the application of accounting policies which most significantly affect the amounts presented in the financial statements:

Item	Amount estimated		Note	Assumptions and estimate calculation
	2017 ***(PLN '000)***	**2018** ***(PLN '000)***		
Investmentsin debt portfolios	3,169,303	4,077,718	3.3 16 28.1 28.3	The value of a purchased debt portfolios as at the measurement date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or debtors (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. The Kruk Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for, among other things, historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.
Goodwill	54,003	62,010	**Błąd! Nie można odnaleźć źródła odwołania.** 3.9.2 15	Goodwill impairment is estimated based on the expected discounted cash flows to be derived from a cash-generating unit. The discount rate used to test goodwill for impairment reflects the current market assessment of the asset risk for the debt collection industry. No goodwill impairment was identified in the period under analysis.
Deferred tax assets and liabilities	14,444	9,182	3.17	As the KRUK Group is able to control the timing of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years).Taxable temporary differences will increase taxable income in the future.

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	2017 *(PLN '000)*	2018 *(PLN '000)*		
Investments	134,852	116,200	16 29	The Kruk Group determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture, and therefore disclosed the transaction in the consolidated financial statements as a proportional share in the company's assets and liabilities rather than an equity-accounted transaction.
Functional currency at InvestCapital	(45,125)	(53,769)	10	InvestCapital carries out material transactions in three different currencies: EUR, PLN, and RON. The Kruk Group assesses the correctness of applying the functional currency for executed transactions on a quarterly basis, taking into account both historical and planned transactions. The functional currency of InvestCapital is EUR.

3. Significant accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in these financial statements, except for the changes related to the application of IFRS 9 *Financial Instruments*, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group adopted the new IFRS 9 as of its effective date, i.e. January 1st 2018. The effect of application of the classification, measurement and impairment recognition rules determined in accordance with the requirements of the new Standard is recognised by the Group as an adjustment to the opening balance as at January 1st 2018, without adjusting the comparative periods.

(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 Company assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value would be measured at amortised cost as of January 1st 2018, as the business model test confirmed rationale for the application of this method. The impact of this change on the value of investments and profit or loss brought forward is positive and amounts to PLN 29,582 thousand.

(b) Impairment

IFRS 9 requires recognising the effect of expected credit losses on all financial assets measured at amortised cost, that is on purchased debt portfolios, loans granted and trade receivables. Debt portfolios which are 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. The impact of higher impairment losses on trade and other receivables, which reflect the additional expected future impairment of these assets in accordance with the new standard, amounted to PLN 1,435 thousand.

(c) Hedge accounting

The Group has assessed that the hedging contracts it entered into in the past still qualify for hedge accounting under IFRS 9 and have no effect on profits for past years.

The Group has not identified any other items whose classification or measurement would change as a result of the adoption of IFRS 9.

The impact of amended IFRS 9 on individual items of the statement of financial position is presented below:

As at December 31st 2018
PLN '000

	IAS 39 methodology	IFRS 9 methodology	Jan 1 2018 – restated	Impact of IFRS 9	Dec 31 2017
Assets					
Cash and cash equivalents			173,284	-	173,284
Trade receivables	Loans and receivables	Amortised cost	16,041	(582)	16,623
Investments	Investments at fair value/Loans and receivables	Amortised cost	3,198,885	29,582	3,169,303
Other receivables	Loans and receivables	Amortised cost	63,391	(853)	64,244
Inventories			494	-	494
Property, plant and equipment			28,669	-	28,669
Other intangible assets			26,830	-	26,830
Goodwill			54,003	-	54,003
Hedge derivatives			8,637	-	8,637
Other assets			18,042	-	18,042
Total assets			3,588,275	28,147	3,560,128

Equity and liabilities

As at December 31st 2018
PLN '000

	IAS 39 methodology	IFRS 9 methodology	Jan 1 2018 – restated	Impact of IFRS 9	Dec 31 2017
Liabilities					
Hedge derivatives			1,375	-	1,375
Trade and other payables			143,449	-	143,449
Employee benefit obligations			28,715	-	28,715
Income tax payable			14,401	-	14,401
Liabilities under borrowings and other debt instruments			1,897,223	-	1,897,223
Deferred tax liability			14,444	-	14,444
Provisions			-	-	-
Total liabilities			2,099,607	-	2,099,607
Equity					
Share capital			18,808	-	18,808
Share premium			293,581	-	293,581
Cash flow hedging reserve			5,882	-	5,882
Translation reserve			(56,619)	-	(56,619)
Other capital reserves			86,805	-	86,805
Retained earnings			1,140,108	28,147	1,111,961
Equity attributable to owners of the Parent			1,488,565	28,147	1,460,418
Non-controlling interests			102	-	102
Total equity			1,488,667	28,147	1,460,520
Total equity and liabilities			3,588,275	28,147	3,560,128

3.1. Basis of consolidation

The Group consolidates the entities over which it exercises control, i.e. subsidiaries, starting from the date when the Group obtains control.

The Parent exercises 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.

All KRUK Group entities are fully consolidated.
Full consolidation of subsidiaries' financial statements consists in summing up the individual items of the statement of financial position and the statement of profit or loss and other comprehensive income of the Parent and the subsidiaries in full amounts, and making appropriate consolidation adjustments and eliminations.
The carrying amount of shares held by the Parent in its subsidiaries and the equity of those subsidiaries on acquisition are eliminated. The following items are eliminated in full amounts:
1) mutual receivables and liabilities and similar accounts between the consolidated entities;
2) income and costs arising on transactions concluded between the consolidated entities;
3) gains or losses arising on transactions between the consolidated entities, included in the value of consolidated assets, with the exception of losses indicating impairment;
4) dividends accrued or paid by the subsidiaries to the Parent and other consolidated entities.

3.1.1. Business acquisitions

Business acquisitions, including acquisitions 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 of the acquiree.

The Group recognises goodwill calculated as the excess of the consideration transferred over the fair value of the acquired net identifiable assets.

The consideration transferred is measured at fair value of transferred assets, liabilities incurred by the Group towards the previous owners of the acquiree, and shares issued by the Group. The consideration also includes the fair value of a part of contingent consideration. If as a result of the acquisition previous liabilities between the Group and the acquiree expire, the value of the consideration is decreased by the contractual price for the extinguishment of liability and recognised as other costs.

The fair value of intangible assets acquired in a business acquisition is based on discounted cash flows expected from the use or any disposal of such assets.

The fair value of property, plant and equipment acquired in a business acquisition is based on the market value of such property, plant and equipment. The 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 acquisition 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.
Material transaction costs incurred in relation to a business acquisition, 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. Business combinations

Combination of jointly controlled entities is accounted for using the pooling of interests method. The pooling of interests method involves aggregating individual items of the relevant assets, liabilities, equity, income and expenses of the combined entities as at the combination date following their remeasurement using uniform valuation methods and applying appropriate eliminations. No goodwill arises as a result of a business combination.

3.1.3. 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 the subsidiaries are uniform with the policies applied by the Group.

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 exchange 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 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 are recognised in other comprehensive income and presented under equity as exchange differences on translation.

3.3. Financial instruments

3.3.1. Financial assets

Contractual cash flow characteristics are assessed based a qualitative test carried out to determine if the cash flows generated from the assets are solely payments of principal and interest (SPPI).

A contractual cash flow characteristic does not affect the classification of the financial asset if:

- it could have only a de minimis effect on the contractual cash flows of the financial asset,
- the cash flow characteristic is not genuine – it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

To make this determination, the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument must be considered.

The SPPI test is performed for each financial asset held in the 'hold to collect' (business model whose objective is to hold financial assets to collect contractual cash flows) and 'hold to collect and sell' (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets) business model as at initial recognition of the asset (including for a substantial modification after restatement of the financial asset) and as at the date of change of the contractual cash flow characteristics.

The Company performed the SPPI test as required under IFRS 9. Based on the test results presented below, the following were reclassified:

Financial assets	Cash	Trade and other receivables	Investments measured at fair value	Investments measured at amortised cost	Loans granted	Loans granted to related entities
Measurement methodology until Dec 31 2017	**Nominal value**	**Nominal value**	**Fair value**	**Amortised cost**	**Amortised cost**	**Nominal value**
Is the asset an equity investment?	No	No	No	No	No	No
Is the asset held to maturity?	n/a	Yes	Yes	Yes	Yes	Yes
Is the asset held for sale?	Yes	No	No	No	No	No
Are contractual cash flows solely payments of principal and interest?						
- time value of money	n/a	n/a	Yes	Yes	Yes	n/a
- credit risk related to capital	n/a	n/a	Yes	Yes	Yes	n/a
- other elements: coverage of risk, costs (liquidity risk, administrative expenses)	n/a	n/a	Yes	Yes	Yes	n/a
- margin	n/a	n/a	Yes	Yes	Yes	n/a
Is the financial asset held in the 'hold to collect' business model?	No	Yes	Yes	Yes	Yes	Yes
Is the financial asset held in the 'hold to collect and sell' business model?	No	No	No	No	No	No
Measurement method since Jan 1 2018	**Amortised cost (*)**	**Amortised cost (*)**	**Amortised cost**	**Amortised cost**	**Amortised cost**	**Amortised cost**

(*) For cash, trade receivables and other positions – amount presented in amortised cost is consistent with nominal value.

On initial recognition, the entity measures financial assets at fair value plus transaction costs directly attributable to their acquisition.

Trade and other receivables and loans granted without a significant financing component are initially measured at the transaction price (purchase price).

Subsequently, financial assets are measured according to the following categories:

1. Assets measured at amortised cost, including:
    a. purchased debt portfolios
    b. trade and other receivables
    c. loans granted

Purchased debt portfolios and loans granted are measured at amortised cost in accordance with IFRS 9 if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Assets measured at fair value through other comprehensive income.
3. Assets measured at fair value through profit or loss.

Financial assets measured at amortised cost

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 if their maturity does not exceed 12 months from the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

Loans and receivables are recognised as financial asset that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flow.

Receivables

At the KRUK Group, recognition of expected losses depends on the change in the level of risk from the moment the receivable arises.
To make that assessment, Kruk compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on the financial asset as at the date of initial recognition considering reasonable and supportable information.

Evidence that financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulties of the issuer or the borrower,
- breach of contract, such as a default or past due event,
- it is becoming probable that the borrower will go bankrupt or will be in position of other financial reorganisation.

With reference to the requirements of IFRS 9, the KRUK Group has introduced three main buckets for the recognition of expected losses:

- Bucket 1 – receivables in the case of which there have been no material risk changes from the time of their recognition, understood as an increase in the probability of reclassification into the impaired receivables bucket (Bucket 3). The expected losses on such receivables are recognised for a time horizon of the next 12 months.
- Bucket 2 – receivables in the case of which there has been a material increase in risk since their recognition as identification of receivables have been 180 days past due, but the probability of default has not yet been identified. For such receivables, expected losses are recognised for the remaining life of the asset.
- Bucket 3 – receivables for which impairment indicators have been identified. For such receivables, expected losses are recognised for the remaining life of the asset.

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 Company under debt assignment agreements. Prices paid by the Company for such debt portfolios are significantly lower than their nominal value (Purchased or originated credit impaired assets).

The Kruk Group's business model for purchased debt portfolios is consists in holding and managing the portfolios on a long-term basis in order to generate expected cash flows from the portfolios.

All purchased debt portfolios are classified by the Company as measured at amortised cost to better reflect the portfolio management strategy focused on holding an asset with a view to maximising contractual 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, i.e. the fair value of the consideration transferred increased by any material transaction costs.

The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts 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 in accordance with regulations of IFRS 9 applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. All actual recoveries collected during the period are recognised as a decrease in the portfolio value.

The estimated cash flows are primarily based on:

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

The value of an asset at a reporting date is its initial value (acquisition price plus transaction costs) increased by interest income, decreased by actual recoveries and adjusted to reflect any updates (revisions) of estimates concerning future cash flows. Consequently, the value of an asset at the reporting date is equal to the discounted value of expected cash recoveries.

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 the carrying amount of the debt portfolios, while interest received is recognised as revenue earned in the period.

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

For the purpose of analyses and recovery projections, retail debt portfolios are grouped. Recovery projections are prepared for separate projection groups rather than for individual portfolios. There are three levels of grouping, based on the following criteria:

1st level of grouping – the country where a debt portfolio was purchased

2nd level of grouping – the measurement method applied (at amortised cost)

3rd level of grouping – the debt portfolio purchase date.

The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Company. Portfolio groups are made of portfolios that are at similar recovery phases. The Company has introduced the following breakdown mechanism for this level of grouping:

- the projection prepared for each projection group is ultimately broken down within the groups into individual debt portfolios using keys based on historical data,
- neither mortgage-backed nor secured corporate debt portfolios are grouped. Recovery projections are prepared for each portfolio separately.

Novum loans

NOVUM loans are measured at amortised cost, using the effective interest rate method, and recognised less of impairment. As part of the NOVUM business line, consumer loans of up to PLN 10,000 are granted for periods from 3 to 12 months. The NOVUM service is mainly addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner.

The Kruk Group's business model with respect to the loans is the 'hold to collect' model (business model whose objective is to hold financial assets in order to collect contractual cash flows). When no repayments are made, the loan is terminated in accordance with the contractual provisions and may be sold.

For loans granted classified as financial assets with identified impairment indicators, the Group recognises loss allowances for expected credit losses.

To make that assessment, Kruk compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on the financial asset as at the date of initial recognition considering reasonable and supportable information.
Evidence that financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulties of the issuer or the borrower,
- breach of contract, such as a default or past due event,
- it is becoming probable that the borrower will go bankrupt or will be in position of other financial reorganisation.

With reference to the requirements of IFRS 9, the KRUK Group has introduced three main buckets for the recognition of expected losses:

- Bucket 1 – loans granted in the case of which there have been no material risk changes from the time of their recognition, understood as an increase in the probability of reclassification into the impaired receivables bucket (Bucket 3). The expected losses on such loans are recognised for a time horizon of the next 12 months.
- Bucket 2 – loans granted in the case of which there has been a material increase in risk since their recognition as identification of loans have been 61 days past due, but the probability of default has not yet been identified. For such loans, expected losses are recognised for the remaining life of the asset.
- Bucket 3 – loans granted for which the impairment indicator consisting in termination of the loan agreement has been identified. For such loans, expected losses are recognised for the remaining life of the asset.

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.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value at the end of the reporting period, 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. 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.

Financial assets at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses, as well as foreign exchange gains or losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest rate method is recognised in profit or loss.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held in the 'hold to collect and sell' business model (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If an entity reclassifies a financial asset from the category of assets measured at fair value through other comprehensive income to the category of assets measured at amortised cost, such asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity and adjusted based on the fair value of the financial asset at the reclassification date. Therefore, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. Such adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and expected credit losses are not adjusted as a result of such reclassification.

If an entity reclassifies a financial asset from the category of assets measured at fair value through other comprehensive income to the category of assets measured at fair value through profit or loss, such asset continues to be measured at its fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

If an entity reclassifies a financial asset from the category of assets measured at fair value through profit or loss to the category of assets measured at fair value through other comprehensive income, such asset continues to be measured at its fair value.

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 contracts. 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

Hedge accounting

To apply hedge accounting, the Company is required to meet all the requirements specified below:

- at the time of designation of the hedging relationship, there is formal documentation describing the hedging relationship, the risk management objective, hedging strategy, identification of the hedging instrument and the hedged item or transaction, nature of the hedged risk, and assessment of effectiveness of the hedging relationship;
- the hedge will be highly effective in offsetting changes in cash flows related to the hedged risk, in accordance with the original documentation relating to the particular hedging relationships;
- a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured based on measurement of the cash flows attributable to the hedged item;
- the effectiveness of the hedging relationship is assessed in every reporting period, at least once a quarter.

Discontinuation of hedge accounting

In the cases listed below, the Company discontinues the application of hedge accounting:

- the hedging relationship no longer meets the qualifying criteria for hedge accounting. In such a case, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective continues to be carried as a separate item in revaluation reserve and is released to the statement of profit or loss over the period when the hedged item affects earnings;
- the hedged instrument has expired or has been sold, terminated or settled. As a result, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective continues to be carried as a separate item in revaluation reserve and is released to the statement of profit or loss over the period when the hedged item affects earnings;
- execution of the forecast transaction is no longer highly probable. In such a case, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective, is taken to profit or loss.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability of cash flows that is attributable to a particular risk associated with a recognised asset or liability or with a highly probable future transaction, and could affect profit or loss.

To the extent corresponding to the effective portion of the hedge, changes in fair value of a hedging derivative designated as a cash flow hedge are recognised directly in other comprehensive income. The ineffective portion of the hedge is recognised in profit or loss. Moreover, any amounts taken directly to the revaluation reserve are transferred to profit or loss in the same period or periods in which the hedged transaction affects profit or loss.

The effectiveness of the hedge is assessed by means of prospective and retrospective effectiveness tests, performed on a quarterly basis.

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 the difference between the disposal proceeds and the carrying amount of the disposed item, and is recognised in current period's profit or loss under other income or other expenses.

3.4.2. Subsequent expenditure

The Group companies capitalise future expenditure on 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 item of property, plant and equipment. 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

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 contracts 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

The Group forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held for capital appreciation or to generate future rental income or income from sale of property. The property value is recognised in the statement of financial position after the Group has obtained the rights to dispose of the property i.e. once a final court decision has been issued, and is deducted from the amount of the debtor's debt. Investment property is initially measured at cost, including transaction costs. Following 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 an 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 sale proceeds 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 initial recognition
Following initial recognition, goodwill is recognised at acquisition cost less cumulative impairment losses. Goodwill is not amortised. Goodwill is tested for impairment at least once a year. For estimates and judgements used to determine impairment losses, see Note 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 development work for the Group's 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. Amortisation

The amount of amortisation charges is determined based on acquisition or production cost of an asset, less its 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 an intangible asset, other than goodwill, from the moment it is placed in service. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

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

Software	5 years
Development expense	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 contracts

Lease contracts under which the Group assumes substantially all risks and benefits resulting from the ownership of property, plant and equipment are classified as finance lease contracts. Assets acquired under finance lease contracts 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 contracts other than finance lease contracts are treated as operating lease and not recognised in the statement of financial position.

3.7. Investments

Investments include:

- Debt portfolios measured at amortised cost (for the rules followed in the valuation of such portfolios, see Sections 3.3 and 3.9.1);
- Investment property (for the rules followed in the valuation of investment property, see Section 3.5);
- Loans granted (for the rules followed in the valuation of loans granted, see Sections 3.3 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 end of the reporting period 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 financial asset is deemed to be impaired if, after initial recognition, there is objective evidence of the occurrence of an event or events that have an adverse effect on future cash flows from the asset and this effect can be reliably measured.

In the case of receivables and loans granted, such objective evidence of impairment includes default or delay in payment by a debtor; restructuring of the debtor's debt to which the Group has agreed for economic or legal reasons related to the debtor's financial distress and to which the Group would not have agreed to otherwise; circumstances indicating that the debtor or issuer is likely to go bankrupt; disappearance of an active market for the financial asset.

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

When assessing the impairment of debt portfolios, the Group uses historical trends in the payments made and transactions in portfolios, taking into account the anticipated future performance.

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 or cash-generating units. The recoverable amount of goodwill, investment property, intangible assets with indefinite useful 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 rate which reflects current market assessments of the time value of money and the risks specific to the asset. In the reporting year 2018, due to changing market environment, the Company decided that the discount rate for the purposes of the DCF model used in impairment tests of goodwill and assets should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, in calculating the discount rate, the Company used the weighted average cost of capital for the debt collection industry instead of the weighted average cost of the KRUK Group's capital. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets.

For impairment testing, assets are grouped up to the smallest distinguishable units which generate cash flows 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 flows. 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/amortisation 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.

Share premium account is created in the amount of the difference between the issue price and the nominal value of issued shares.

Capital reserve is created from retained earnings in accordance with the objective set out in a resolution.

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 the rules 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 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)

Value of rights granted to employees to acquire the Parent shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The value of the plan is initially measured as at the grant date. 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 vest unconditionally. Any changes in the value of the plan are disclosed as an adjustment to values previously posted in the current period. The value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based payments plan, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the value of an individual right may only increase.

Valuation 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 the valuation, 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 management stock option plans are described in Note 22.

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

Revenue from debt collection includes revenue from debt collection services (fee-based credit management) and revenue from purchased 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 defined percentage of collected amounts.

Revenue from debt purchase

<u>Revenue from debt portfolios</u>

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash recovery 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 in accordance with regulations applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. All actual recoveries collected 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 expected future cash recoveries for the portfolio are disclosed as revenue earned in a given period.

3.14.2. Sale of other services

Revenue from sale 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 sale of other services also comprises revenue from loans granted, 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 Section 3.3), and revenue from loans granted as part of operating activities (see Section 3.3)), dividend receivable and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period 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 using tax rates that are expected to apply 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.

Deferred tax assets are recognised in respect of tax loss carry forwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realised. 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.

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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 2018 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 or after January 1st 2019:

Standards and Interpretations endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
IFRS 16 *Leases*	IFRS 16 supersedes IAS 17 *Leases* and related Interpretations. For lessees, the new Standard eliminates the existing distinction between finance and operating leases and discloses most leases in the statement of financial position. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position. Rights of use are amortised, and interest is charged on the lease liability. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments. The new standard provides for a number of exemptions with limited applicability, including:	The Group expects that upon initial application the Standard will have a material effect on its financial statements as it will require recognition in the statement of financial position of assets and liabilities arising from operating leases in which the entity is the lessee. The Group estimates that the effect of the above on the consolidated statement of financial	January 1st 2019

	• leases with a lease term of 12 months or less and containing no purchase options, and • leases where the underlying asset has a low value. Lessors will continue to classify leases as either operating or finance leases and thus recognise most leases without any changes.	position will be PLN 66,814 thousand.	
IFRIC 23 *Uncertainty over Income Tax Treatments*	IFRIC 23 provides guidance on income tax treatment where the applied treatment has not yet been accepted by the relevant tax authorities and is intended to enhance clarity. From the IFRIC 23 perspective, the key issue is assessing the probability of a tax treatment being accepted by the relevant tax authorities. If it is concluded that it is probable that a particular uncertain tax treatment will be accepted by the relevant tax authorities, the tax should be recognised in the financial statements consistently with the relevant income tax filings without reflecting the uncertainty over current and deferred tax treatment. Otherwise, taxable profit (tax loss), tax bases and unused tax losses should be recognised using the most likely amount method or the expected value method (sum of probability-weighed possible solutions), depending on which provides better predictions of the resolution of the uncertainty. An entity must assume that tax authorities will examine the uncertain tax treatment and will have full knowledge of all relevant information when doing so.	The Group does not expect the Interpretation to have a material effect on its financial statements, because it does not operate in a difficult international tax environment / there are no significant uncertainties related to income tax recognition.	January 1st 2019

Amendments to IFRS 9 *Financial Instruments*	These amendments allow prepayable financial assets with negative compensation representing contractual cash flows that are solely payments of principal and interest on the principal amount outstanding to be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss as long as such financial assets meet the remaining requirements applicable under IFRS 9.	The Group does not expect the Standard to have a significant effect on its consolidated financial statements.	January 1st 2019

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

Standards and Interpretations not yet endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	The amendments clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business: • the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not), the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary.	The Group is currently estimating the effect of the new Standard on its consolidated financial statements.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*
IFRS 17 *Insurance Contracts*	IFRS 17 replaces the transitional IFRS 4 *Insurance Contracts* introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2021

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
Amendments to IAS 28 *Investments in Associates and Joint Ventures*	The amendments clarify that entities apply IFRS 9 *Financial Instruments* to investments in associates and joint ventures which are not accounted for using the equity method.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	The Annual Improvements to IFRS Standards 2014–2016 Cycle contain four amendments. The key amendments: • clarify that the entity elects to remeasure an investment in a joint venture when it obtains control of the joint venture in accordance with IFRS 3 *Business Combinations*; • clarify that an entity does not remeasure an investment in a joint venture when it obtains joint control of a joint venture in accordance with IFRS 11 *Joint Arrangements*; • clarify that an entity should always recognise the tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the transaction or event that gave rise to the recognition of the dividend was recognised; and	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2019

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
	clarify that an entity should derecognise from borrowed funds without a specific purpose those funds specifically borrowed to finance the acquisition of a qualifying asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale have been completed; funds borrowed specifically to fund the acquisition of a qualifying asset are not funds borrowed to fund the acquisition of a qualifying asset after the qualifying asset is ready for its intended use or sale.		
Amendments to IAS 19 *Employee Benefits* (Plan Amendment, Curtailment or Settlement)	The amendments to IAS 19 explain how entities recognise expenses when there is a change in a defined benefit plan. The changes require the entity to use current assumptions in the event of a plan amendment, curtailment or settlement in order to determine the current service cost and net interest for the remaining reporting period from the plan amendment date.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2019
Amendments to IFRS 3 *Business Combinations*	The amendments narrow and clarify the definition of a business, and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	1 January 2020

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8	The amendments align and clarify the definition of 'material' and set out guidelines intended to increase the consistency of application of this concept in international financial reporting standards.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	1 January 2020

4. Reporting and geographical segments

Reporting segments

Below, the Group presents its principal reporting segments. The division into segments presented below is based on the criteria of materiality of revenue and share of investments 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 trading partners' behalf,
- Other: financial intermediation, lending, provision of business information.

The performance of each reporting segment 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 divided into four segments based on the scale and place of operations:

- 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 credit management and revenue from other products represent external revenue.

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Reporting segments

For the financial year ended December 31st 2018	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	**591,085**	**424,688**	**68,929**	**80,109**	**1,164,811**
Purchased debt portfolios	537,972	413,947	57,866	60,212	**1,069,997**
Credit management services	26,123	10,320	11,063	19,897	**67,403**
Other products	26,990	421	-	-	**27,411**
Direct and indirect costs					**(500,918)**
Purchased debt portfolios	-	-	-	-	**(437,328)**
Credit management services	-	-	-	-	**(52,602)**
Other products	-	-	-	-	**(10,988)**
Gross profit (*)					**663,893**
Purchased debt portfolios	-	-	-	-	**632,669**
Credit management services	-	-	-	-	**14,801**
Other products	-	-	-	-	**16,423**
Administrative expenses	-	-	-	-	**(160,981)**
Depreciation and amortisation	-	-	-	-	**(19,923)**
Other income	-	-	-	-	**4,876**
Other expenses (unallocated)	-	-	-	-	**(9,594)**
Finance income/costs	-	-	-	-	**(125,731)**
Profit before tax	-	-	-	-	**352,540**
Income tax	-	-	-	-	**(22,128)**
Net profit	-	-	-	-	**330,412**
Carrying amount of debt portfolios	**1,841,927**	**932,228**	**742,915**	**560,648**	**4,077,718**
Cash recoveries	**767,508**	**527,700**	**126,021**	**155,546**	**1,576,775**

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For the financial year ended December 31st 2017

	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	**551,925**	**436,158**	**13,281**	**54,090**	**1,055,453**
Purchased debt portfolios	501,693	427,192	9,446	33,412	**971,743**
Credit management services	25,751	8,839	3,835	20,678	**59,102**
Other products	24,481	127	-	-	**24,608**
Direct and indirect costs					**(466,034)**
Purchased debt portfolios	-	-	-	-	**(412,505)**
Credit management services	-	-	-	-	**(44,210)**
Other products	-	-	-	-	**(9,319)**
Gross profit (*)					**589,419**
Purchased debt portfolios	-	-	-	-	**559,238**
Credit management services	-	-	-	-	**14,892**
Other products	-	-	-	-	**15,289**
Administrative expenses	-	-	-	-	**(147,910)**
Depreciation and amortisation	-	-	-	-	**(18,677)**
Other income	-	-	-	-	**5,896**
Other expenses (unallocated)	-	-	-	-	**(7,957)**
Finance income/costs	-	-	-	-	**(85,587)**
Profit before tax	-	-	-	-	**335,184**
Income tax	-	-	-	-	**(39,987)**
Net profit	-	-	-	-	**295,198**
Carrying amount of debt portfolios	**1,434,171**	**857,117**	**534,377**	**294,897**	**3,120,562**
Cash recoveries	**632,573**	**533,089**	**80,397**	**122,852**	**1,368,911**

(*) Gross profit = operating income - operating expenses

5. Revenue

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Revenue from debt purchase	1,069,997	971,743
Revenue from credit management	67,403	59,102
Revenue from other services	27,411	24,608
	1,164,811	1,055,453

Revenue from debt purchase

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Interest income (*)	873,403	872,653
Other income from debt purchase (**)	61,134	n/a
Revaluation of debt portfolios	107,427	88,709
Gain/(loss) on sale of debts	4,264	1,989
Foreclosure of property	25,271	7,768
Gain/(loss) on sale of property	(1,502)	624
	1,069,997	971,743

(*) In 2017, both interest income and other income from debt purchase were presented under interest income.

(**) Other income from debt purchase – deviations of actual recoveries, decreases on early recoveries in collateralised cases, costs of loyalty scheme valuation, costs of provision for overpayments, payments from original creditor.

Revaluation of debt portfolios

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Revision of recovery projections	106,347	104,827
Change due to change in discount rate	-	(2,303)
Foreign currency gains/losses	1,080	(13,816)
	107,427	88,709

The Group verifies projections of recoveries under debt portfolios on a quarterly basis, and every quarter it recognises changes in portfolio value. In 2018, the aggregate amount of portfolio revaluation was PLN 107,427 thousand (2017: PLN 88,709 thousand), and was recognised as revenue from purchased portfolios.

Revenue from credit management

Revenue from fee-based credit management comprises commission fees ranging from 2% to 49% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key trading partner accounts for 3% of total revenue from fee-based credit management (2017: 2.3%).

6. Other income

PLN '000	Note	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Re-billed costs of services and court fees		1,117	2,508
Gain on sale of property, plant and equipment		1,547	916
Return of compensation for damage caused by motor vehicles		672	753
Reversal of impairment losses on receivables	28.1	70	250
Other		1,470	1,469
		4,876	5,896

7. Services

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Consultancy services	(42,287)	(36,947)
Postal and courier services	(16,719)	(23,889)
Debt collection services	(25,528)	(21,110)
Space rental and service charges	(23,249)	(18,187)
Banking services	(10,147)	(6,109)
Communications services	(6,838)	(5,926)
IT services	(6,779)	(5,815)
Other auxiliary services	(4,554)	(4,974)
Other rental	(5,347)	(2,765)
Printing services	(2,417)	(2,537)
Marketing and management services	(3,729)	(1,981)
Security	(1,628)	(1,322)
Recruitment services	(938)	(1,169)
Repair and maintenance services	(375)	(306)
Packing services	(397)	(435)
Repair of vehicles	(1,044)	(909)
Transport services	(59)	(82)
	(152,035)	(134,462)

8. Other expenses

PLN '000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Court fees		(136,996)	(143,430)
Taxes and charges		(33,154)	(42,817)
Raw materials and consumables used		(11,770)	(14,472)
Advertising		(4,798)	(1,466)
Business trips		(6,010)	(8,428)
Staff training		(3,710)	(4,573)
Motor insurance		(1,590)	(1,834)
Entertainment expenses		(3,008)	(1,377)
Losses from damage caused by motor vehicles		(758)	(844)
Impairment losses on receivables	*28.1*	(966)	(164)
The costs of services and fees to re-billed		(1,817)	-
Property insurance		(760)	(544)
Non-deductible VAT		(573)	-
Other		(3,854)	(10,476)
		(209,764)	(230,426)

9. Employee benefits expense

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Salaries and wages	(237,142)	(196,654)
Old-age and disability pension contributions (defined contribution plans)	(18,699)	(34,245)
Other social security contributions	(44,217)	(14,677)
Contribution to the State Fund for the Disabled	(1,518)	(1,290)
Equity-settled cost of stock option plan	(8,118)	(10,147)
	(309,694)	(257,013)

10. Finance income and costs

Recognised in profit or loss for current period

Finance income

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Interest income on loans granted and receivables	-	-
Interest income on bank deposits	148	310
	148	310

Finance costs

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Interest and commission expense on financial liabilities measured at amortised cost	(90,551)	(88,116)
Net foreign exchange losses	(38,670)	(1,087)
Interest income/expense on hedging instruments	1,892	3,306
Ineffective portion of remeasurement of hedging instruments	1,450	-
	(125,879)	(85,897)

Finance cost/income presented in the statement of cash flows does not include exchange differences on intragroup transactions.

Recognised in other comprehensive income

Exchange differences on translating foreign operations

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Exchange differences on translating foreign operations	(2,850)	(56,027)
Attributable to:		
Owners of the Parent	(2,850)	(56,027)
Non-controlling interests	-	-
Finance cost recognised directly in other comprehensive income	(2,850)	(56,027)

11. Income tax

Income tax recognised in profit or loss and total comprehensive income for period

PLN '000	*Note*	Jan 1 2018 – Dec 31 2018	Jan 1 2017 – Dec 31 2017
Current income tax			
Current income tax payable		(25,223)	(28,040)
Adjustment to income tax for 2014		-	(2,940)
Deferred income tax			
Related to temporary differences and their reversal	*17*	3,095	(9,007)
Income tax recognised in profit or loss		(22,128)	(39,987)
Deferred income tax			
Related to temporary differences and their reversal	*17*	1,380	(1,380)
Income tax recognised in other comprehensive income		1,380	(1,380)
		(20,748)	(41,367)

(*) Income tax for the reporting period and income tax adjustment for 2014 of PLN 2,940 thousand.

Reconciliation of effective tax rate

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Profit before tax	359,706	335,184
Tax calculated at the Parent's rate (19%)	(68,344)	(63,685)
Effect of application of other tax rates abroad	(6,179)	8,208
Effect of non-deductible expenses	52,395	15,490
Income tax recognised in profit or loss	(22,128)	(39,987)
Effective tax rate (%)	6.28%	11.93%

The effective tax rate differs from the applicable tax rates as the consolidated data includes data of entities whose operations are subject to deferred income tax upon realisation of income or payment of dividend.

Tax risk

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with a resulting lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents to follow. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretation of tax regulations, both between individual public authorities and between public authorities and enterprises.

Tax settlements and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspection by administrative bodies authorised to impose potentially high penalties and fines plus relatively high interest, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

The Group believes that it has paid all due taxes, fines and default interest in a timely manner. In respect of all uncertain tax items, where the current legislation and communication with tax authorities do not provide sufficient guidance, the Group analysed the existing tax laws and regulations and their interpretations, and applied them correctly.

The period for which tax settlements may be subject to tax audit is four years in Spain, five years in Poland, the Czech Republic and Germany, six years in Italy, and seven years in Romania and Slovakia.

On July 15th 2016, amendments were made to the Polish 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, in justified cases, to challenge schemes and arrangements made by corporate taxpayers, such as restructuring or reorganisation of corporate groups.

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

As at December 31st 2018			
PLN '000	***Note***	**Dec 31 2018**	**Dec 31 2017**
Assets			
Non-current assets			
Property, plant and equipment	*13*	26,354	28,669
Other intangible assets	*14.15*	33,877	26,830
Goodwill	*15*	62,010	54,003
Hedge derivatives	*25*	1,450	8,637
Total non-current assets		123,691	118,139
Current assets			
Inventories	*18*	197	494
Investments	*16*	4,156,970	3,169,303
Trade receivables	*19*	28,143	16,623
Other receivables	*19*	23,088	64,244
Cash and cash equivalents	*20*	147,302	173,284
Other assets	*21*	2,786	18,042
Total current assets		4,358,486	3,441,990
Total assets		4,482,177	3,560,128
Equity and liabilities			
Equity			
Share capital	*22*	18,887	18,808
Share premium		300,097	293,581
Cash flow hedging reserve		(3,869)	5,882
Translation reserve		(53,769)	(56,619)
Other capital reserves		94,924	86,805
Retained earnings		1,376,084	1,111,961
Equity attributable to owners of the Parent		1,732,354	1,460,418
Non-controlling interests		396	104
Total equity		1,732,750	1,460,522
Non-current liabilities			
Deferred tax liability	*17*	9,182	14,444
Non-current liabilities under borrowings and other debt instruments	*24*	2,201,652	1,636,696
Hedge derivatives	*25*	3,870	1,375
Total non-current liabilities		2,214,704	1,652,515
Current liabilities			
Current liabilities under borrowings and other debt instruments	*24*	298,391	260,527
Trade and other payables	*28*	176,054	143,449
Income tax payable		15,600	14,401
Employee benefit obligations	*26*	44,678	28,715
Total current liabilities		534,723	447,091
Total liabilities		2,749,427	2,099,606
Total equity and liabilities		4,482,177	3,560,128

Current and non-current items of the statement of financial position are presented based on contractual cash flows. Investments in debt portfolios are overdue debt claims that the KRUK Group presents under current assets.

13. Property, plant and equipment

Gross value of 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
Gross value as at Jan 1 2017	776	22,854	31,716	3,543	1,187	60,074
Purchase	19	7,490	3,122	1,609	1,931	14,170
Sale/ liquidation	-	(817)	(6,957)	(7)	-	(7,780)
Effect of exchange rate changes	(15)	(386)	(669)	(256)	(17)	(1,344)
Gross value as at Dec 31 2017	779	29,141	27,211	4,890	3,100	65,121

PLN '000	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 2018	779	29,141	27,211	4,890	3,100	65,121
Acquisition resulting from business combinations	-	60	-	101	-	161
Purchase	20	4,420	4,007	1,077	4,280	13,806
Sale/ liquidation	(130)	(2,055)	(8,757)	(1,347)	(3,339)	(15,629)
Transfer of property, plant and equipment under construction	-	-	-	2,696	(2,696)	-
Effect of exchange rate changes	(0)	(130)	(17)	(170)	(16)	(334)
Gross value as at Dec 31 2018	669	31,436	22,443	7,248	1,329	63,125

Depreciation and impairment losses

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 2017	(58)	(15,039)	(15,000)	(2,505)	-	(32,601)
Depreciation	(89)	(3,644)	(6,332)	(877)	-	(10,941)
Decrease resulting from sale/ liquidation	-	818	5,367	-	-	6,185
Effect of exchange rate changes	8	292	453	153	-	906
Accumulated depreciation and impairment losses as at Dec 31 2017	(138)	(17,573)	(15,512)	(3,229)	-	(36,452)

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 2018	(138)	(17,573)	(15,512)	(3,229)	-	(36,452)
Increase resulting from business combination						-
Depreciation	(49)	(5,253)	(4,943)	(961)	-	(11,206)
Decrease resulting from sale/ liquidation	130	1,987	7,896	818	-	10,831
Effect of exchange rate changes	0	53	32	(31)		55
Accumulated depreciation and impairment losses as at Dec 31 2018	(57)	(20,785)	(12,527)	(3,403)	-	(36,772)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net value						
As at Jan 1 2017	718	7,815	16,716	1,038	1,187	27,473
As at Dec 31 2017	641	11,568	11,699	1,660	3,100	28,669
As at Jan 1 2018	641	11,568	11,699	1,660	3,100	28,669
As at Dec 31 2018	612	10,651	9,917	3,845	1,329	26,354

Property, plant and equipment used under lease contracts

Under finance lease contracts, the Group uses cars and trucks whose net carrying amount as at December 31st 2018 and December 31st 2017 was PLN 9,079 thousand and PLN 9,952 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities used under lease contracts (see Note 24).

For the effect of regulatory changes in lease accounting resulting from the new IFRS 16, see Note 3.20.1.

Property, plant and equipment under construction

In 2018 the Group incurred costs related to the purchase of IT and telecommunication equipment which was not placed in service as at December 31st 2018. Property, plant and equipment under construction stood at PLN 1,329 thousand and PLN 3,100 thousand as at December 31st 2018 and 2017, respectively.

14. Other intangible assets

PLN '000

	Software, licences, permits	Other	Intangible assets under construction	Total
Gross value of intangible assets				
Gross value as at Jan 1 2017	35,283	369	-	35,652
Produced internally	6,624	-	-	6,624
Other increase	10,110	-	-	10,110
Decrease	(3,649)	-	-	(3,649)
Effect of exchange rate changes	(38)	-	-	(38)
Gross value as at Dec 31 2017	48,329	369	-	48,698
Gross value as at Jan 1 2018	48,329	369	-	48,698
Acquisition resulting from business acquisitions	8,881	-	-	8,881
Produced internally	6,106	-	-	6,106
Other increase	1,950	-	425	2,375
Decrease	(3,455)	-	-	(3,455)
Effect of exchange rate changes	(138)	-	-	(138)
Gross value as at Dec 31 2018	61,674	369	425	62,468

PLN '000

	Software, licences, permits	Other	Intangible assets under construction	Total
Accumulated amortisation and impairment losses				
Accumulated amortisation and impairment losses as at Jan 1 2017	(15,590)	(369)	-	(15,959)
Amortisation	(7,736)	-	-	(7,736)
Decrease	1,603	-	-	1,603
Effect of exchange rate changes	223	-	-	223
Accumulated amortisation and impairment losses as at Dec 31 2017	(21,500)	(369)	-	(21,869)
Accumulated amortisation and impairment losses as at Jan 1 2018	(21,500)	(369)	-	(21,869)
Amortisation	(8,717)	-	-	(8,717)
Decrease	2,023	-	-	2,023
Effect of exchange rate changes	(28)	-	-	(28)
Accumulated amortisation and impairment losses as at Dec 31 2018	(28,222)	(369)	-	(28,591)

PLN '000

	Software, licences, permits	Other	Intangible assets under construction	Total
Net value				
As at Jan 1 2017	19,693	-	-	19,693
As at Dec 31 2017	26,830	-	-	26,830
As at Jan 1 2018	26,830	-	-	26,830
As at Dec 31 2018	33,452	-	425	33,877

15. Goodwill

PLN '000	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK Espana S.L.	ERIF BIG S.A.	AgeCredit S.r.l	Total
Gross value as at Jan 1 2017	299	5,002	47,977	725	-	54,003
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Gross value as at Dec 31 2017	299	5,002	47,977	725	-	54,003
Gross value as at Jan 1 2018	299	5,002	47,977	725	-	54,003
Increase	-	-	-	-	8,007	8,007
Decrease	-	-	-	-	-	-
Gross value as at Dec 31 2018	299	5,002	47,977	725	8,007	62,010
Net value						
As at Jan 1 2017	299	5,002	47,977	725	-	54,003
As at Dec 31 2017	299	5,002	47,977	725	-	54,003
As at Jan 1 2018	299	5,002	47,977	725	-	54,003
As at Dec 31 2018	299	5,002	47,977	725	8,007	62,010

The acquisition of AgeCredit S.r.l., a company providing debt management services in Italy, was accounted for in accordance with acquisition method of IFRS 3 as at the date of acquisition of control over the company, i.e. April 16th 2018, when the 51% interest in the company was purchased. On September 3rd 2018, KRUK S.A. purchased the remaining 49% of shares in AgeCredit S.r.l., thus acquiring in total 100% of the company shares. Therefore, following settlement of the transaction, there are no non-controlling interests in the acquiree.

Preliminary accounting for the acquisition of AgeCredit S.r.l is as follows:

PLN '000

ASSETS	AgeCredit S.r.l data as at Apr 16 2018 (based on the value disclosed in the financial statements)	Fair value adjustment	Final data as at acquisition date – Apr 16 2018
Cash and cash equivalents	2,235	-	2,235
Trade receivables	2,126	-	2,126
Investments	19	(15)	4
Property, plant and equipment	343	(182)	161
Other intangible assets	119	-	119
TOTAL ASSETS	4,842	(197)	4,645

LIABILITIES	AgeCredit S.r.l data as at Apr 16 2018	Fair value adjustment

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	(based on the value disclosed in the financial statements)		Final data as at acquisition date – Apr 16 2018
Trade and other payables	1,685	5,303	6,988
Employee benefit obligations	2,005	-	2,005
TOTAL LIABILITIES	3,690	5,303	8,993

The acquired assets and liabilities were measured at fair value. The fair value of the acquired debt portfolio was determined using the DCF method, applied in accordance with the practice effective at the KRUK Group. As a result of the acquisition, the KRUK Group recognised goodwill of PLN 8,007 thousand. The acquiree data was recognised as at the acquisition date.
The goodwill was tested for impairment. The test did not indicate the need to recognise an impairment loss on goodwill.

Impairment testing of cash-generating units which include goodwill
For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest cash-generating units (not larger than the Group's operating segments described in Note 4) 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. In order to perform goodwill tests, cash-generating units associated with given goodwill were defined first. It was determined that the cash-generating unit in the case of KRUK Espana S.L., KRUK Italia S.r.l and AgeCcredit S.r.l. was the credit management business (debt collection services for unrelated undertakings) as such was both companies' business profile prior to the acquisition and these activities are continued. The key assumption underlying the calculation of recoverable amount is the level of margin earned on the credit management services provided to clients. The assumptions adopted are based on historical performance, current knowledge of the credit management market and the potential of operating structures.

Next, a five-year projection of cash flows related to this activity was made. In the reporting year 2018, due to changing market environment, the Company decided that the discount rate for the purposes of the DCF model used in impairment tests of goodwill should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, in calculating the discount rate, the Company used the weighted average cost of capital for the debt collection industry instead of the weighted average cost of the KRUK Group's capital. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets(as at December 31st 2018, weighted average cost of capital for the debt collection industry was at 7.34%). The residual value was calculated using a growth rate equal to the average projected inflation rate during the forecast period in the range of 1,57% - 2,63% for the relevant country.

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In the case of KRUK Italia S.r.l. and KRUK Espana S.L., a drop in EBITDA in the forecast period by 70% and 40%, respectively, would require recognition of an impairment loss on goodwill.

16. Investments

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Financial assets at fair value through profit or loss	-	518,963
Financial assets at amortised cost	4,077,718	2,601,599
Investment property	35,188	23,869
Loans granted	44,064	24,872
	4,156,970	3,169,303

Debt portfolios

For the rules followed in the valuation of purchased debt portfolios, see Note 3.3.1. Purchased debt portfolios are divided into the following main categories:

Purchased debt portfolios

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Unsecured portfolios	3,279,395	2,412,081
Secured portfolios	798,323	708,481
	4,077,718	3,120,562

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

	Dec 31 2018	**Jan 1 2018 Restated – IFRS 9**	**Dec 31 2017**
Discount rate			
- risk-free*	-	-	0.012% - 3.54%
- risk premium**	8.10% - 420.22%	8.10% - 420.22%	5.32% - 321.14%
Period for which recoveries have been estimated	Jan 2019–Dec 2034	Jan 2018–Dec 2033	Jan 2016–Dec 2033
Nominal value of expected future recoveries	7,239,219	5,704,063	5,704,063

** Depending on the market and only for debt portfolios measured at fair value.*
*** Applicable to 99% of debt portfolios.*

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Period		
Up to 12 months	1,610,716	1,309,988
From 1 to 2 years	1,502,131	1,262,448
From 2 to 3 years	1,255,767	982,557
From 3 to 4 years	966,812	691,267
From 4 to 5 years	647,285	450,428
Over 5 years	1,256,508	1,007,376
	7,239,219	5,704,063

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 for debt portfolios measured at amortised cost:

- risk premium,
- period for which cash flows are estimated,
- the value of expected future cash flows estimated based on current data and currently used debt collection tools.

Sensitivity analysis – revision of projections

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	increase in recoveries by 100 bps	**decrease in recoveries by 100 bps**	**increase in recoveries by 100 bps**	**decrease in recoveries by 100 bps**
Dec 31 2018				
Investments in debt portfolios	34,664	(34,664)	-	-
Dec 31 2017				
Investments in debt portfolios	31,094	(31,094)	-	-

Sensitivity analysis – time horizon

The sensitivity analysis presented below assumes extension or shortening of the projection period with a simultaneous increase or decrease in the recovery projections (in the case of extension by one year, projected recoveries increased by PLN 73,646 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 109,010 thousand; for 2017 PLN 51,151 thousand and PLN 81,798 thousand, respectively).

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	extension by one year	**shortening by one year**	**extension by one year**	**shortening by one year**
Dec 31 2018				
Investments in debt portfolios	4,474	(8,542)	-	-
Dec 31 2017				
Investments in debt portfolios	5,247	(10,320)	-	-

w tysiącach złotych	**Zysk lub strata bieżącego okresu**		**Kapitał własny bez zysku lub straty bieżącego okresu**	
	wzrost odzysków o 100 pb	**spadek odzysków o 100 pb**	**wzrost odzysków o 100 pb**	**spadek odzysków o 100 pb**
31 grudnia 2018 r.				
Inwestycje w pakiety wierzytelności	34 664	(34 664)	-	-
31 grudnia 2017 r.				
Inwestycje w pakiety wierzytelności	31 094	(31 094)	-	-

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans granted, see Note 28.

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

PLN '000	
Value of purchased debt portfolios as at Jan 1 2017	**2,640,946**
Purchase of debt portfolios	976,509
Purchase price adjustment for discount	(634)
Cash recoveries	(1,368,911)
Value of foreclosed property	(17,805)
Increase/(decrease) in liabilities to debtors due to overpayments	435
Valuation of loyalty scheme	5,795
Revenue from debt purchase (interest and revaluation)	971,743
Translation differences on debt portfolios	(87,516)
Value of purchased debt portfolios as at Dec 31 2017	**3,120,562**
Value of purchased debt portfolios as at Dec 31 2017	**3,120,562**
Impact of changes in accounting policies following application of IFRS 9	**29,582**
Value of purchased debt portfolios as at Jan 1 2018	**3,150,144**
Purchase of debt portfolios	1,394,581
Purchase price adjustment for discount	(245)
Cash recoveries	(1,576,775)
Increase/(decrease) in liabilities to debtors due to overpayments	589
Valuation of loyalty scheme	6,283
Payments from original creditor	(5,452)
Revenue from debt purchase (interest and revaluation)	1,069,997
Translation differences on debt portfolios	38,596
Value of purchased debt portfolios as at Dec 31 2018	**4,077,718**

Investment property

As part of its operating activities, the Group forecloses properties securing acquired debt. A portion of recoveries is derived from the sale of such properties on the open market.

PLN '000	
Value of property held as at Jan 1 2018	**23,869**
Value of foreclosed property	25,190
Value of property sold	(12,200)
Income from sale of property	(1,753)
Value of property held as at Dec 31 2018	**35,106**

Joint arrangements

On July 29th 2016, the KRUK Group, acting through its related entities ProsperoCapital S.à.r.l of Luxembourg ("ProsperoCapital") and Invest Capital 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 by another four years. It is a significant agreement for the KRUK Group as it has enabled a considerable increase in market share in Romania. The agreement meets the criteria to be classified as a joint arrangement 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
  - neither 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 flows 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 2018, the value of the KRUK Group's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 116,200 thousand, while revenue shown in the statement of profit or loss was PLN 46,168 thousand (Note 2.4).

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Loans granted

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 12 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.

The table below presents net loans granted as at the end of the reporting periods.

IAS 39 classification	IFRS 9 classification	Value as at Dec 31 2018 (IFRS 9)	Value as at Dec 31 2017 (IAS 39)
Investments (loans granted)			
	Bucket 1	-	n/a
	Bucket 2	35,097	n/a
	Bucket 3	8,967	n/a
		44,064	24,872

17. 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 2018	**Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**
Property, plant and equipment	1,321	1,677	(1,742)	(1,793)	(421)	(116)
Intangible assets	-	-	(2,627)	(2,395)	(2,627)	(2,395)
Tax losses deductible in future periods	1,482	-		-	1,482	-
Trade and other receivables	-	1,183	(173)	(11,522)	(173)	(10,338)
Liabilities under borrowings and other debt instruments	10,675	2,005	-	-	12,566	2,005
Employee benefit obligations	2,001	890	-	-	2,001	890
Provisions and liabilities	2,265	1,211	-	-	374	1,211
Investments	3,267	-	(25,651)	(4,322)	(16,976)	(4,322)
Hedge derivatives	-	-	-	(1,380)	-	(1,380)
Deferred tax assets/liabilities	21,011	6,967	(30,193)	(21,411)	(9,182)	(14,444)
Deferred tax assets offset against liabilities	(21,011)	(6,967)	21,011	6,967	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(9,182)	(14,444)	-	-

Change in temporary differences in the period

PLN '000	As at Jan 1 2018	Change in temporary differences recognised in profit or loss for current period	As at Jan 1 2018	As at Jan 1 2017	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2017
Property, plant and equipment	(116)	(305)	(421)	(392)	276	(116)
Intangible assets	(2,395)	(232)	(2,627)	(2,033)	(362)	(2,395)
Tax losses deductible in future periods	-	1,482	1,482	-	-	-
Trade and other receivables	(10,338)	10,165	(173)	(2,651)	(7,687)	(10,338)
Liabilities under borrowings and other debt instruments	2,005	8,670	10,675	1,428	577	2,005
Employee benefit obligations	890	1,112	2,001	2,692	(1,802)	890
Provisions and liabilities	1,211	1,053	2,265	470	741	1,211
Investments	(4,322)	(18,062)	(22,384)	(3,571)	(751)	(4,322)
	(13,064)	3,095	(9,182)	(4,057)	(9,007)	(13,064)

PLN '000	As at Jan 1 2018	Change in temporary differences recognised in other comprehensive income	As at Jan 1 2018	As at Jan 1 2017	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2017
Hedge derivatives	(1,380)	1,380	-	-	(1,380)	(1,380)
	(1,380)	1,380	-	-	(1,380)	(1,380)

The Group benefits from the regulation provided in IAS 39 and does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future and it is probable that the temporary differences will not reverse 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 Polish tax laws, up to 50% of a loss may be utilised in each of the years of the five-year period.

Tax losses of ERIF, Erif Bussines Solution, Novum, and Secapital Polska and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2018**	**Dec 31 2017**
Tax loss for 2013	Dec 31 2018	-	516
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	265
Tax loss for 2017	Dec 31 2022	18	18
Tax loss for 2018	Dec 31 2023	64	-
		2,322	2,774
Applicable tax rate		19%	19%
Potential benefit of tax losses		441	527

Deferred tax assets of PLN 441 thousand (2017: PLN 527 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

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.

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2018**	**Dec 31 2017**
Tax loss for 2013	Dec 31 2018	-	4,197
Tax loss for 2016	Dec 31 2021	-	3,849
		-	8,046
Applicable tax rate		19%	19%
Potential benefit of tax losses		-	1,529

Deferred tax assets of PLN 441 thousand (2017: PLN 2,056 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

18. Inventories

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Materials	227	384
Prepaid deliveries	(30)	109
	197	494

In the reporting period ended December 31st 2018, the Group did not recognise any write-downs on inventories.

19. Trade and other receivables

Trade receivables

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Trade receivables	28,143	16,623
	28,143	16,623
Long-term	-	-
Short-term	28,143	16,623
	28,143	16,623

Other receivables

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Taxes receivable (other than income tax)	12,297	10,110
Receivables for court fees and stamp duty	268	18,136
Receivables under security deposits and bid bonds	7,150	8,667
Receivables under collected debts	2,925	13,288
Other receivables	448	14,042
	23,088	64,244

Taxes receivable (other than income tax) comprise VAT receivable.

For information on the Group's exposure to credit and currency risk as well as impairment losses on receivables, see Note 28.

20. Cash and cash equivalents

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Cash in hand	57	71
Cash in current accounts	147,245	173,213
	147,302	173,284

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 28.

21. Other assets

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Expenses relating to future reporting periods	1,015	15,070
Development expense	486	919
Liability and all-loss insurance expense	9	33
Other	1,276	2,020
	2,786	18,042

22. Equity

Share capital

	Ordinary shares	
	2017	**2016**
'000		
Number of shares as at Jan 1	18,808	18,744
Issue of shares	79	64
Number of fully-paid shares at end of period	18,887	18,808
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at Jan 1	18,808	18,744
Par value as at Dec 31	18,887	18,808

Parent's shareholding structure as at December 31st 2018

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,931,666	1,932	10%
NN PTE (*)	2,000,000	2,000	11%
Aviva OFE	1,319,000	1,319	7%
Other members of the Management Board	222,442	222	1%
Other shareholders	13,413,753	13,414	71%
	18,886,861	18,887	100%

As at December 31st 2018, the registered share capital was divided into 18,887 thousand ordinary shares (December 31st 2017: 18,808 thousand).

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

Management stock option plan for 2015–2019

The incentive scheme for 2015–2019 was approved by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the "2015−2019 Plan").

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011−2014 Plan can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015−2019 Plan is addressed to the key management personnel of KRUK S.A. and other Group companies. In accordance with its terms, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution.

For the purposes of the 2015–2019 Plan, the General Meeting approved a conditional increase in the Parent's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. 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, on an annualised average basis, by no less than 13% relative to the base year.

Details of the 2015−2019 Plan can be found in the Directors' Report on the operations of the KRUK Group in 2016.

By way of its resolution of September 8th 2014, the Supervisory Board defined and approved the Rules for the Management Stock Option Scheme for 2015−2019.

Tranche 1

On June 9th 2016, the Supervisory Board declared, by way of resolution, that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 1 for 2015 had been met. As a result, 86,435 subscription warrants were delivered on July 1st 2016 to eligible persons other than Management Board members. On October 27th 2016, 20,000 subscription warrants were delivered to eligible persons who were Management Board members.

By the issue date of these consolidated financial statements, 77,964 warrants issued in Tranche 1 were converted into newly issued Series F shares in the Company. Thus, 28,471 Tranche 1 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, are held by the eligible persons. 13,500 of those warrants are held by the Management Board members.

Tranche 2

By way of a resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 2 for 2016 had been met. As a result, 91,467 subscription warrants were delivered on July 7th 2017 to eligible persons other than Management Board members.

On August 27th 2017, 50,480 subscription warrants were delivered to eligible persons who were Management Board members.
By the issue date of these consolidated financial statements, 64,681 Tranche 2 warrants were converted into newly issued Series F shares in the Company. Thus, 77,266 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, are held by the eligible persons. 50,480 of those warrants are held by the Management Board members.

Tranche 3

By way of a resolution dated May 11th 2018, the Supervisory Board declared that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 3 for 2017 had been met.

On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Plan. On this basis, on June 20th 2018, the Management Board invited eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to the eligible persons on July 3rd 2018.

On September 11th 2018, the Management Board passed a resolution to determine the list of Management Board members eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Plan. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015−2019 Plan. On September 17th 2018, 54,344 subscription warrants were delivered to eligible persons who were Management Board members.

The Management Board members hold no rights to KRUK S.A. shares other than those attached to the management stock options discussed above.

For information on costs of the Stock Option Plan, see Note 31.

Number of options	Dec 31 2018	Dec 31 2017
Number of options priced under the 2015−2019 Plan at the beginning of the reporting period*:	784,229	731,162
Number of options priced under the 2015−2019 Plan during the reporting period*:	33,979	53,067
Number of options priced under the 2015−2019 Plan at the end of the reporting period*:	818,208	784,229
Number of options forfeited under the 2015−2019 Plan during the reporting period**:	19,308	9,251
Number of options exercised under the 2015−2019 Plan during the reporting period:	78,961	63,684
Number of options exercisable under the 2015−2019 Plan at the end of the reporting period:	105,737	42,751
Issue price of options in the 2015-2019 Plan	**83.52**	**83.52**

* The number of options priced includes all options priced under the Plan, including forfeited options.

** Forfeited options are priced options that have not been delivered for reasons provided for in the Rules of the Management Stock Option Plan.

Exchange differences on translating subordinates

Exchange differences on translating subordinates include exchange differences on translating foreign operations.

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
InvestCapital Ltd.	(207)	(46,219)
SeCapital S.à r.l.	13,686	(21,767)
KRUK Italia S.r.l	(10,607)	10,459
Kruk Deutschland GmbH	1,705	(1,635)
KRUK Espana S.L.	(3,218)	(548)
KRUK Romania S.r.l	804	(375)
ItaCapital S.r.l	(980)	879
KRUK Česká a Slovenská republika s.r.o.	1,215	1,738
Other	452	1,441
	2,850	(56,027)

23. Earnings per share

Basic earnings per share

As at December 31st 2018, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 330,412 thousand (2017: PLN 295,095 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,843 thousand (2017: 18,748 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Net profit for period	330,412	295,198
Non-controlling interests	(396)	(103)
Net profit attributable to ordinary shareholders of the Parent	330,016	295,095

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Number of ordinary shares as at Jan 1	*22*	18,808	18,744
Effect of cancellation and issue		35	4
Weighted average number of ordinary shares in period ended Dec 31		18,843	18,748
PLN			
Earnings per share		17.51	15.74

Dividend per share paid

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Dividend paid from profit and retained earnings	94,040	37,488
PLN		
Dividend per share	5.00	2.00

Diluted earnings per share

As at December 31st 2018, diluted earnings per share were calculated based on net profit attributable to ordinary shareholders of the Parent of PLN 330,412 thousand and the diluted weighted average number of shares in the period covered by the financial statements of 19,308 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	**Dec 31 2018**	**Dec 31 2017**
Weighted average number of ordinary shares in period ended Dec 31	18,843	18,748
Effect of issue of unregistered shares not subscribed for	465	527
Weighted average number of ordinary shares in period ended Dec 31 (diluted)	19,308	19,275
PLN		
Earnings per share (diluted)	17.09	15.31

24. 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.

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Non-current liabilities		
Secured borrowings	1,057,384	354,962
Liabilities under debt securities (unsecured)	1,142,906	1,276,772
Finance lease liabilities	1,362	4,962
	2,201,652	1,636,696
Current liabilities		
Short-term portion of secured borrowings	73,632	134,918
Liabilities under debt securities (unsecured)	216,966	121,491
Short-term portion of finance lease liabilities	7,793	4,117
	298,391	260,526

On July 3rd 2017, KRUK S.A. and the subsidiary InvestCapital Ltd. entered into a revolving multi-currency credit facility agreement with a bank syndicate comprising DNB Bank ASA of Oslo, ING Bank Śląski S.A. of Katowice, Bank Zachodni WBK S.A. of Wrocław, and mBank S.A. of Warsaw. The agreement provides for a revolving multi-currency credit facility of up to EUR 250m. Under the terms and conditions of the credit facility, credit tranches can be used to finance or refinance debt portfolio purchases made by the borrower in European markets, with the exception of Poland. The credit facility is granted for a period of five years from the agreement date. The interest rate on the facility was set on an arms' length basis at a currency-specific IBOR plus margin. The agreement provides for the following security:

a) pledge or other encumbrance on designated foreign portfolios held by the borrower,
b) pledge over bank accounts into which portfolio recoveries are directly or indirectly paid,
c) pledge over the deposit account in which the borrower holds particular bonds, and on the account into which proceeds from such bonds are paid,
d) surety provided by KRUK S.A. and KRUK S.A.'s declaration of submission to enforcement, each up to EUR 375m.

Estimated as at December 31st 2018, the value of security listed in a), b) and c) above totalled approximately PLN 1,155k.

The agreement sets forth the terms and conditions which must be met for the first credit tranche to be advanced. The agreement stipulates no additional conditions precedent or subsequent, or contractual penalties.

The other terms and conditions of the agreement do not differ from those commonly used in agreements of such type.

Terms and repayment schedule of borrowings and other debt instruments

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2018**	**Dec 31 2017**
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.2 pp; 1M EURIBOR + margin of 2.2–3.25 pp	2024	1,131,016	489,880
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–3.5 pp	2023	1,359,872	1,398,263
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.1–3.9 pp	2022	9,155	9,079
				2,500,043	1,897,222

Repayment schedule for finance lease liabilities
PLN '000

	Future minimum lease payments	**Interest**	**Present value of future minimum lease payments**
As at December 31st 2018			
up to 1 year	5,817	67	5,750
from 1 to 5 years	3,551	146	3,405
	9,368	213	9,155
As at December 31st 2017			
up to 1 year	4,166	49	4,117
from 1 to 5 years	5,072	110	4,962
	9,238	159	9,079

Security over assets

PLN '000	Dec 31 2018	Dec 31 2017
Registered pledge over purchased debt portfolios financed with a credit facility, with assignment of claims, registered pledge over shares in SeCapital S.à r.l., registered pledge over bonds of Itacapital S.rl	1,875,306	1,125,665
Property, plant and equipment under finance leases	9,155	9,079
	1,884,461	1,134,744

For a description of the security created, see Note 34.

25. Other derivatives

It has been concluded that effective implementation of the KRUK Group's growth strategy requires, among other elements, a proper interest rate risk and currency risk management policy. The interest rate risk management policy covers the following:

- the Group's objectives in terms of interest rate risk;
- interest rate risk monitoring methods;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding permitted exposure to interest rate risk;
- interest rate risk management rules of the KRUK Group;
- The Company applies two types of hedging strategies, as described below.

In 2017, the Group concluded two foreign currency interest rate swaps (CIRS), under which the Group pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The contracts hedge both currency risk and interest rate risk as they effectively change the debt contracted in the złoty with euro-denominated liabilities:

First contract: The Group pays at a fixed rate of 3.06%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).

Second contract: The Group pays at a fixed rate of 2.97%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates (hedging a part of the coupon on PLN 90m worth of Series AA1 bonds and on PLN 100m worth of Series Z1 bonds) and by assets denominated in a convertible currency due to interest rate fluctuations (hedging of EUR-denominated cash flows from investments in subsidiaries).

The Group expects cash flows to be generated and to have an effect on its performance in the period until 2021.

In 2018, due to the ineffectiveness of the hedging relationship, the valuation was written off to the statement of profit or loss.

In addition, in 2017 the Group concluded two interest rate swaps (IRS) under which it pays a coupon based on a fixed PLN interest rate and receives a coupon based on a variable PLN interest rate. The contracts provide a hedge against interest rate risk.

First contract: The Group pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).

Second contract: The Group pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates (hedging the coupon on PLN 150m worth of Series AA2 bonds and on PLN 50m worth of Series AC1 bonds).

The Group expects cash flows to be generated and to have an effect on its performance in the period until 2022.

PLN '000	**Carrying amount/fair value of derivatives**				
	Dec 31 2018			**Dec 31 2017**	
	Assets	**Liabilities**	**Change**	**Assets**	**Liabilities**
Instrument type:					
CIRS	1,450	-	(7,187)	8,637	-
IRS	-	3,870	2,495	-	1,375
	1,450	3,870	(4,692)	8,637	1,375

	Nominal value as at Dec 31 2018				
	Below 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
IRS					
fixed payment PLN sale	-	-	-	200,000	-
floating payment PLN	-	-	-	200,000	-

	Nominal value as at Dec 31 2017				
	Below 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
CIRS					
floating payment PLN purchase	-	-	-	190,000	-
fixed payment EUR sale (original currency)	-	-	-	(43,418)	-
IRS					
fixed payment PLN sale	-	-	-	(200,000)	-
floating payment PLN	-	-	-	200,000	-
	-	-	-	146,582	-

Other comprehensive income from cash flow hedges	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Other comprehensive income at beginning of period, before tax	5,882	-
Gains/(losses) recognised in other comprehensive income during period	(10,962)	10,298
Amount reclassified from other comprehensive income to profit or loss during period	169	3,036
Interest income	1,554	3,036
Ineffective portion of cash flow hedges recognised in profit or loss	(1,385)	-
Accumulated other comprehensive income at end of period, before tax	(5,249)	7,262
Tax effect	1,380	(1,380)
Accumulated other comprehensive income at end of period, net of tax	(3,869)	5,882
Effect on other comprehensive income (before tax) during period	(11,131)	7,262
Deferred tax on cash flow hedges	1,380	(1,380)
Effect on other comprehensive income during period, net of tax	(9,751)	5,882

26. Employee benefit obligations

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Salaries and wages payable	17,053	14,129
Liabilities to the Social Security Institution	11,540	6,029
Personal income tax	3,551	1,831
Accrued holiday entitlements	5,684	6,331
Provisions for salaries and wages (bonuses)	250	206
Provisions for retirement severance payments	6,554	124
Special accounts	46	64
	44,678	28,715

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2017	4,394
Increase	5,853
Use	(3,916)
Value as at Dec 31 2017	6,331
Value as at Jan 1 2018	6,331
Increase	5,621
Use	(5,678)
Release	(590)
Value as at Dec 31 2018	5,684

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2017	8,408
Increase	206
Use	(8,408)
Value as at Dec 31 2017	206
Value as at Jan 1 2018	206
Increase	3,214
Use	(3,170)
Value as at Dec 31 2018	250

27. Trade and other payables

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Trade payables	76,095	81,122
Tax and duties payable	13,036	23,080
Other liabilities	47,542	18,295
Accrued expenses	22,861	13,694
Deferred income	16,520	7,258
	176,054	143,449

For information on the exposure to currency risk and liquidity risk associated with liabilities, see Note 28.

28. Management of risk arising from financial instruments

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.

Key policies of risk management

The Management Board of the Parent 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 in 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.

28.1. Credit risk

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

Loans granted

The vast majority of borrowers are the KRUK Group clients who have repaid their debts under settlement agreements concluded or loans contracted, or are repaying such debts in a timely manner. The offer addressed to a group of people who have already used an instalment-based product of the Kruk Group carries a lower credit risk than is the case for clients whose credit history is unknown to us. The number of loans granted to borrowers who were not previously clients of the Kruk Group does not represent a significant portion of the Kruk Group's consumer loan portfolio. The Group has the experience and analytical tools necessary to estimate credit risk for loans offered both to new clients and to clients previously involved with the Kruk Group.

For each loan, the Group assesses the client's creditworthiness, which is then reflected in the offer addressed to the client.

As the loans granted are measured at amortised cost, the credit risk related to the loans is reflected in their valuations at the end of each reporting period. As at each valuation date, the Group estimates credit risk based on past inflows from loans granted. The credit risk assessment also takes into account the period of delinquency of the loans being valued.

The Group mitigates the risk by performing a meticulous verification of clients before a loan is granted, taking into account the likelihood of recovery of invested capital from the amounts disbursed to clients and the estimated costs of the sale and service process. 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 advancing a loan and other terms of cooperation;
- Regular monitoring of timely payment of debt;
- Monitoring of risk indicators;
- Maintaining a diversified client base.

The customer's creditworthiness assessment includes:

- Verification of the client with a credit reference agency;
- Verification of loan documents;
- Verification of the employment status;
- Verification of the customer's contact phone (for sales over the phone).

As part of the NOVUM risk management policy, a description of the applied principles and methods of risk identification, measurement and control has been developed in order to optimise the risk to profitability ratio. These principles are designed to assist in making rational business decisions based on the principle of balancing risk and profitability by limiting losses resulting from the materialisation of an unplanned adverse scenario or situation and maximising income earned in the case of materialisation of an unplanned favourable scenario or situation. The following risk monitoring ratios have been established:

- Monthly repayment rate;
- The share of test products, i.e. loans granted on terms other than previously approved, in monthly sales;
- The share of sales outside the scoring model in monthly sales.

The Group carries out a thorough analysis and estimate of the risk attached to the loans it grants using advanced economic and statistical tools and relying on its long-standing experience in this respect.

As at the date of these financial statements, the KRUK Group holds no single loan granted to third parties whose non-payment could have a material adverse effect on its liquidity.

Trade and other receivables

The Management Board has established a credit policy whereby each trading partner is evaluated for its creditworthiness before any payment dates and other contractual terms and conditions are offered. The evaluation includes external ratings of the trading partner, when available, and in some cases bank references. Each trading partner 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 trading partners
- - email messages are sent to trading partners
- - telephone calls are made to trading partners.

Over 60% of trading partners 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 comprise of fees receivable in respect of debt collected for external trading partners.

The Group's exposure to credit risk mainly results from individual characteristics of each trading partner. The Group's largest trading partner generated 3% of the Group's total revenue (2017: 2.3%). Receivables from the Group's largest trading partner represented 0.8% of total trade receivables, VAT inclusive, as at December 31st 2018 (December 31st 2016: 2.3%). Therefore, there is no significant concentration of credit risk at the Group.

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

Purchased debt portfolios

Purchased debt portfolios comprise of 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. Credit risk related to purchased debt portfolios is relatively high, but the Group has the experience and 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.

The credit risk is also reflected in the portfolios' valuations as at the end of each reporting period.

As at each valuation date, the Group estimates credit risk based on recoveries from a given portfolio as well as other portfolios with 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 form of incorporation
  - 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 in credit risk assessment affect expected amounts 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 valuation of each portfolio before and after 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 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. Other sub-portfolios are valued on a case-by-case basis in a due diligence process as at the time of their purchase.

Recoveries are estimated based on a statistical model developed on the basis of available 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, *inter alia*, on the quality of data provided by the trading partner for valuation, reference data matching, and the number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow projection.

Moreover, the Group diversifies the risk by purchasing various types of debt, with varying degrees of difficulty 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 trading partners and debtors, which includes, among other things:

- assessment of a trading partner's and debtor'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 Group analyses the risk attached to the debt portfolios it purchases using economic and statistical tools and relying on 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 these consolidated financial statements, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on its 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.

Exposure to credit risk

Carrying amounts of financial assets reflect 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	***Note***	**Dec 31 2018**	**Dec 31 2017**
Financial instruments at fair value through profit or loss	*16*	-	518,963
Financial assets at amortised cost	*16*	4,077,718	2,601,599
Loans	*16*	44,064	24,872
Receivables	*19*	51,231	80,867
		4,173,013	3,226,301

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Poland	1,906,078	1,463,326
Romania	945,558	864,575
Czech Republic	119,729	119,043
Italy	751,667	540,291
Other foreign markets	449,981	239,066
	4,173,013	3,226,301

Impairment losses

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

IAS 39 classification	**IFRS 9 classification**	**Value as at Dec 31 2018 (IFRS 9)**	**Value as at Dec 31 2017 (IAS 39)**
Trade and other receivables			
	Bucket 1	52,727	n/a
	Bucket 2	109	n/a
	Bucket 3	-	n/a
		52,836	81,576
Impairment losses			
	Bucket 1	1,496	n/a
	Bucket 2	109	n/a
	Bucket 3	-	n/a
		1,605	709

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1 2018 - Dec 31 2018			Jan 1 2017 - Dec 31 2017
	Bucket 1	**Bucket 2**	**Bucket 3**	
Impairment loss as at Jan 1	-	709	-	795
Impairment loss recognised in period	1,496	-	-	164
Reversal of impairment loss	-	(600)	-	(250)
Use of impairment loss	-	-	-	-
Impairment loss as at Dec 31	**1,496**	**109**	**-**	**709**

Presented below is the analysis of loans granted as at the end of the reporting periods:

IAS 39 classification	IFRS 9 classification	Value as at Dec 31 2018 (IFRS 9)	Value as at Dec 31 2017 (IAS 39)
Investments (loans granted)			
	Bucket 1	-	n/a
	Bucket 2	38,577	n/a
	Bucket 3	19,845	n/a
		58,422	37,274
Impairment losses			
	Bucket 1	-	n/a
	Bucket 2	3,480	n/a
	Bucket 3	10,878	n/a
		14,358	12,402

Below are presented changes in impairment losses on loans granted:

PLN '000	Jan 1 2018 - Dec 31 2018			Jan 1 2017 - Dec 31 2017
	Bucket 1	**Bucket 2**	**Bucket 3**	
Impairment loss as at Jan 1	-	2,926	9,476	11,189
Impairment loss recognised in period	-	557	1,402	1,213
Reversal of impairment loss	-	(3)	-	-
Use of impairment loss	-	-	-	-
Impairment loss as at Dec 31	**-**	**3,480**	**10,878**	**12,402**

As at December 31st 2018, the gross value of loans granted to individuals was PLN 58,422 thousand (December 31st 2017: PLN 37,274 thousand). The Group recognised an impairment loss on loans of PLN 14,358 thousand as at December 31st 2018 (2017: PLN 12,402 thousand).

The amount of the impairment loss is determined for individual expected loss recognition buckets, based on estimates that reflect the risk of incurring the expected loss, made taking into account the stage of delinquency (0–30 DPD; 31–60 DPD; 61<=DPD; terminated loans). The value of the impairment loss covers 24.6% of the gross of loans granted.

For information on changes in impairment losses on purchased debt portfolios measured at amortised cost, see Note 5.

28.2. Liquidity risk

Liquidity risk is the risk of the Group's failure to pay its liabilities when due.
Liquidity risk management aims to ensure that the Group has sufficient liquidity to pay its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.
The key objective of liquidity management is to protect the Kruk Group against the loss of ability to pay its liabilities.
The Group has a liquidity management policy in place, which includes, among other things, rules for contracting debt finance, preparing analyses and projections of the Group's liquidity, and monitoring the performance of obligations under credit facility agreements.
The Group's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected level of recoveries from debt portfolios.
In accordance with the liquidity management policy adopted by the Group valid as at the day of publication of the consolidated financial statement the following conditions must be met by a Group entity before new debt can be incurred:

- the debt can be repaid from the Group's own assets,
- incurring the debt will not result in exceeding the financial covenants stipulated in facility agreements and terms and conditions of bonds.

Exposure to liquidity risk

Below are presented the contractual terms of financial liabilities:

As at December 31st 2018
PLN '000

	Carrying amount	Contractual cash flows	less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	4,077,718	7,241,078	795,326	817,249	1,502,131	2,869,864	1,256,508
Loans granted	44,064	51,109	18,812	15,235	16,138	924	-
Secured borrowings	(1,131,016)	(1,549,700)	(36,374)	(39,751)	(380,668)	(235,595)	(857,312)
Unsecured bonds in issue	(1,359,872)	(1,465,773)	(82,630)	(121,273)	(142,325)	(1,119,545)	-
Finance lease liabilities	(9,155)	(9,368)	(3,256)	(2,562)	(2,249)	(1,302)	-
Trade and other payables	(176,054)	(176,054)	(176,054)	-	-	-	-
	1,445,685	4,091,292	515,825	668,899	993,027	1,514,346	399,196

As at December 31st 2017
PLN '000

	Carrying amount	Contractual cash flows	less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	3,120,562	5,704,063	629,958	680,030	1,262,448	2,124,252	1,007,376
Loans granted	24,872	42,465	15,816	10,653	10,102	5,894	-
Secured borrowings	(489,880)	(530,471)	(23,748)	(28,793)	(52,263)	(425,668)	-
Unsecured bonds in issue	(1,398,263)	(1,624,805)	(43,328)	(135,848)	(182,235)	(1,263,394)	-
Finance lease liabilities	(9,079)	(9,769)	(3,296)	(2,356)	(3,553)	(564)	-
Trade and other payables	(143,449)	(143,449)	(143,449)	-	-	-	-
	1,104,763	3,438,034	431,953	523,685	1,034,500	440,520	1,007,376

Contractual cash flows were determined based on interest rates effective as at December 31st 2017 and December 31st 2018, respectively.
The Group does not expect the projected cash flows discussed in the maturity analysis to occur significantly earlier than assumed or in amounts materially different from those presented.
As at December 31st 2018, the undrawn revolving credit facility limit available to the Group was PLN 832,730 thousand (2017: PLN 1,198,003 thousand). The limit is available until December 20th 2023.

28.3. 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.

It has been concluded that effective implementation of the KRUK Group's growth strategy requires, among other elements, a proper interest rate risk and currency risk management policy. The interest rate risk management policy covers the following:

- the Group's objectives in terms of interest rate risk;
- interest rate risk monitoring methods;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding permitted exposure to interest rate risk;
- interest rate risk management rules of the KRUK Group;
- The Group applies two types of hedging strategies.

The currency risk management policy covers the following:

- the Group's currency risk management objectives;
- key rules of currency risk management at the Group;
- acceptable impact of currency risk on the Group's profit or loss and equity (currency risk appetite);
- methods of measuring and monitoring currency risk and currency risk exposure;
- procedures to be followed in the case of exceeding permitted currency risk appetite and specified currency risk limits;
- currency risk hedging policies;
- roles and responsibilities in the currency risk management process.

As at December 31st 2018, financial assets denominated in foreign currencies accounted for 55% of total assets, while liabilities denominated in foreign currencies represented 16% of total equity and liabilities (December 31st 2017: 52% and 14%, respectively).

The Group uses financial instruments to hedge its interest rate risk and currency risk (see Note 3.3.3).

Exposure to currency risk and sensitivity analysis

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

PLN '000	Dec 31 2018					Dec 31 2017					Dec 31 2018					Dec 31 2017				
	Exposure to currency risk										Exposure to currency risk if exchange rate goes up +10%									
	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL
Effect on profit/loss for period																				
Receivables	18	-	5,132	142	**5,292**	63	44,837	3	-	**44,907**	2	-	513	14	**529**	6	4,484	-	-	**4,490**
Financial assets	-	283	662,717	18,513	**681,513**	-	60,135	617,698	15,067	**692,900**	-	28	66,272	1,851	**68,151**	-	6,014	61,770	1,507	**69,290**
Cash	362	5,519	17,390	10,827	**34,098**	3,207	4,691	19,214	2,177	**29,290**	36	552	1,739	1,083	**3,410**	321	469	1,921	218	**2,929**
Liabilities under borrowings and other debt instruments	-	(424,303)	-	-	**(424,303)**	-	(436,632)	-	-	**(436,632)**	-	(42,430)	-	-	**(42,430)**	-	(43,663)	-	-	**(43,663)**
Trade and other payables	(23)	(7,513)	(9,277)	(92)	**(16,905)**	(44)	(740)	(27,195)	(653)	**(28,632)**	(2)	(751)	(928)	(9)	**(1,690)**	(4)	(74)	(2,719)	(65)	**(2,863)**
Effect on profit/loss for period	357	(426,014)	675,962	29,390	**279,695**	3,226	(327,708)	609,721	16,590	**301,832**	36	(42,601)	67,596	2,939	**27,970**	323	(32,771)	60,972	1,659	**30,183**
Effect on other comprehensive income																				
Receivables	-	18,242	12,242	3	30,487	-	15,541	9,018	(214)	24,345	-	1,824	1,224	-	**3,048**	-	1,554	902	(21)	**2,434**
Financial assets	-	1,201,952	278,386	80,895	1,561,233	-	745,059	222,760	1,253	969,071	-	120,195	27,839	8,090	**156,124**	-	74,506	22,276	125	**96,907**
Cash	-	54,039	33,778	4,136	91,953	-	34,246	39,047	1,478	74,771	-	5,404	3,378	414	**9,196**	-	3,425	3,905	148	**7,477**
Liabilities under borrowings and other debt instruments	-	(530,645)	-	-	(530,645)	-	-	-	-	-	-	(53,065)	-	-	**(53,065)**	-	-	-	-	-
Trade and other payables	-	(47,935)	(7,982)	(1,079)	**(56,996)**	-	(22,707)	(24,416)	(565)	(47,687)	-	(4,794)	(798)	(108)	**(5,700)**	-	(2,271)	(2,442)	(56)	**(4,769)**
Effect on other comprehensive income	-	695,653	316,424	83,955	**1,096,032**	-	772,139	246,409	1,952	**1,020,500**	-	69,564	31,643	8,396	**109,603**	-	77,214	24,641	195	**102,050**
Exposure to currency risk	357	269,639	992,386	113,345	**1,375,727**	3,226	444,431	856,130	18,542	**1,322,332**	36	26,964	99,239	11,335	137,574	323	44,443	85,613	1,854	**132,233**
Risk mitigation effect		(190,000)			**(190,000)**	-	(190,000)	-	-	**(190,000)**	-	(19,000)	-	-	(19,000)	-	(19,000)	-	-	**(19,000)**
Exposure to currency risk after hedging	357	79,639	992,386	113,345	**1,185,727**	3,226	254,431	856,130	18,542	**1,132,332**	36	7,964	99,239	11,335	113,233	323	25,443	85,613	1,854	**113,233**

As at December 31st 2018, a 10% appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an decrease of equity and profit before tax by the amounts shown above. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

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 2018 - Dec 31 2018	**Jan 1 2017 - Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**
EUR 1	4.2669	4.2447	4.3000	4.1709
USD 1	3.6227	3.7439	3.7597	3.4813
RON 1	0.9165	0.9282	0.9229	0.8953
CZK 1	0.1663	0.1614	0.1673	0.1632
HUF 100	1.3339	1.3723	1.3394	1.3449

Exposure to interest rate risk

The structure of interest-bearing financial instruments at the end of the reporting period was as follows:

PLN '000	**Carrying amount**	
	Dec 31 2018	**Dec 31 2017**
Fixed-rate financial instruments		
Financial assets	4,173,013	2,707,338
Financial liabilities	(439,402)	(415,336)
	3,733,611	2,292,002
Risk mitigation effect	(200,000)	(390,000)
	3,533,611	1,902,002
Variable-rate financial instruments		
Financial assets	-	518,963
Financial liabilities	(2,236,695)	(1,625,335)
	(2,236,695)	(1,106,372)
Risk mitigation effect	200,000	390,000
	(2,036,695)	(716,372)

Sensitivity analysis of fair value of fixed rate financial instruments

The Group does not hold any fixed 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 variable 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 for current period		Equity excluding profit or loss for current period	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2018				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(22,367)	22,367	-	-
Dec 31 2017				
Variable rate financial assets	(5,628)	5,764		
Variable rate financial liabilities	(22,177)	22,177	-	-

Fair values

Comparison of 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 2018		Dec 31 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss	-	-	518,963	518,963
Hedge derivatives	(2,420)	(2,420)	7,262	7,262
	(2,420)	(2,420)	526,225	526,225
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	4,077,718	3,692,947	2,601,599	2,460,200
Loans and receivables	95,295	95,295	105,739	105,739
Secured bank borrowings	(1,131,016)	(1,131,016)	(489,880)	(489,880)
Unsecured bonds in issue	(1,359,872)	(1,369,712)	(1,398,263)	(1,374,306)
Finance lease liabilities	(9,155)	(9,155)	(9,079)	(9,079)
Trade and other payables	(176,054)	(176,054)	(143,449)	(143,449)
	1,496,916	1,102,305	666,666	549,225

For information on the rules of fair value measurement, see Section 3.3.

Interest rates used for fair value estimation

	Dec 31 2018	**Dec 31 2017**
Financial assets measured at fair value and at amortised cost	8.10% - 420.22%	5.32% - 321.14%
Borrowings	1.84% - 4.89%	1.83%-3,65%
Unsecured bonds in issue	4.22% - 5.22%	4.23%-6,33%
Finance lease liabilities	1.09% - 3.9%	1.39%-3,58%

Hierarchy of financial instruments measured at fair value

The table below presents the fair value of financial instruments recognised in the statement of financial position at fair value and at amortised cost. 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 2014−2018, no transfers were made between the levels.

PLN '000	**Level 3**	
	Carrying amount	**Fair value**
As at Dec 31 2017		
Financial assets at fair value through profit or loss	518,963	518,963
Financial assets at amortised cost	2,601,599	2,460,200
As at Dec 31 2018		
Financial assets at fair value through profit or loss	-	-
Financial assets at amortised cost	4,077,718	3,692,947

PLN '000	**Level 2**	
	Carrying amount	**Fair value**
As at Dec 31 2017		
Hedge derivatives	7,262	7,262
As at Dec 31 2018		
Hedge derivatives	(2,420)	(2,420)

The fair value of purchased debt portfolios 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 risk premium associated with the credit risk for each portfolio.

28.4. Capital management

The Management Board monitors the return on equity, defined by the Group as the ratio of net profit to equity, excluding non-controlling interests.
The Management Board seeks to strike a balance between the rate of return achievable with higher debt levels and the risk exposure. In the reporting period from January 1st to December 31st 2018, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 24.07% (2017: 26.43%).
The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and finance leases to total equity, was 1.43 as at December 31st 2018 (December 31st 2017: 1.3).
In the reporting period from January 1st to December 31st 2018, there were no changes in the Group's approach to capital management.

29. Operating leases

Operating lease contracts with the Group as a lessee

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
up to 1 year	16,479	6,061
from 1 to 5 years	42,717	19,181
	59,196	25,242

- 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.
- 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 EUR 460 thousand. Following the lapse of the three-year period, the agreement is effective for an indefinite term.
- 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.

In addition to the agreements referred to above, the note includes the lease of office space in Milan, Berlin, Madrid, and San Gwann.

30. Related-party transactions

Remuneration of the management personnel - Management Board

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

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Base pay/ managerial contract (gross)	6,599	5,559
Provision for employee bonuses for current year	250	206
Share based payments	8,118	4,119
	14,967	9,884

Other transactions with management personnel

As at December 31st 2018, members of the Management Board and persons closely related to them jointly held 11.62% of the total voting rights at the Parent's General Meeting (December 31st 2017: 11.62%).

31. Share-based payments

Equity-settled cost of stock option plan for the Management Board of the Parent and employees.

PLN '000	**Value of benefits granted**
Period ending	
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	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Dec 31 2017	10,147
Dec 31 2018	8,118
Total	54,923

The management stock option plans are described in Note 22.

32. Auditor's fees

Auditor's fees

PLN '000	Dec 31 2018	Dec 31 2017
Audit of financial statements	1,053	1,053
Other assurance services, including review of financial statements	408	408
	1,461	1,461

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33. Contingent liabilities

Security created over the KRUK Group's assets

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards Santander Bank S.A. under the credit facility granted to Prokura NS FIZ	Santander Bank S.A.	PLN 30m	Until fulfilment of all obligations under the credit facility agreement	Prokura NS FIZ's failure to pay its liabilities under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 52.97m	Until December 19th 2022	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 40.14m	Until June 4th 2024	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 210m	Until July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Santander Bank S.A.	PLN 162.40m	Until settlement of derivative transactions and satisfaction of the Bank's claims related to the transactions.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the framework agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended

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Surety for InvestCapital LTD's liabilities under the transactions executed under the framework agreement between KRUK S.A., InvestCapital LTD and Santander Bank S.A.	Santander Bank S.A.	PLN 162.40m	Until October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the framework agreement on the procedure for execution and settlement of treasury transactions
Guarantee issued by Kruk S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until fulfilment of all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A.	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by BZ WBK S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 0.28m and PLN 190,030.02	Until December 30th 2019	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	Until December 30th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

On October 12th 2017, KRUK S.A. and Lehman Brothers Holding concluded an agreement to purchase 100% of the BISON NS FIZ (closed-end investment fund) certificates. If from the beginning of the transition period to the expiry of five years from the time of signing the agreement the amounts recovered from the portfolios held by BISNON NS FIZ exceed PLN 60,000 thousand, KRUK S. A. will be obliged to pay remuneration to the original owner of the investment certificates. The remuneration will be computed as 40% of the amounts recovered in excess of PLN 60,000 thousand.

34. Events subsequent to the reporting date

On January 14th 2019, the Management Board of KRUK S.A. passed a resolution on the issue of AG2 Series bonds and defining the final terms and conditions of the issue. A base prospectus has been drawn up for the bonds. The bonds will be offered in a public offering. Up to 250,000 unsecured bearer bonds with a nominal value of PLN 100 will be offered. The bonds will bear interest at a variable rate of 3M WIBOR plus a margin of 3.5pp. Series AG2 bonds will be redeemed by the Company on February 6th 2024.

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 Zasępa
Member of the Management Board

Monika Grudzień-Wiśniewska
Person responsible for maintaining the accounting records

Hanna Stempień
Person preparing the financial statements

Wrocław, March 7th 2019