The KRUK Group
Consolidated financial statements
for the year ended December 31st 2017

Prepared in accordance with the International Financial Reporting Standards

as endorsed by the European Union

The KRUK Group

December 31st 2017

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Consolidated statement of profit or loss

For the year ended December 31st 2017
PLN '000

	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Revenue	*5*	1,055,453	783,398
Other income	*6*	5,896	8,773
		1,061,349	792,171
Employee benefits expense	*9*	(257,013)	(190,778)
Depreciation and amortisation	*13, 14*	(18,677)	(13,538)
Services	*7*	(134,462)	(79,415)
Other expenses	*8*	(230,426)	(159,417)
		(640,578)	(443,148)
Operating profit		420,771	349,023
Finance income	*10*	310	363
Finance costs	*10*	(85,897)	(63,038)
Net finance costs		(85,587)	(62,675)
Profit before tax		335,184	286,348
Income tax	*11*	(39,987)	(37,671)
Net profit for period		295,198	248,677
Net profit attributable to:			
Owners of the Parent		295,095	248,663
Non-controlling interests		103	14
Net profit for period		295,198	248,677

Earnings per share			
Basic (PLN)	*23*	15.74	14.08
Diluted (PLN)	*23*	15.31	13.55

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

Consolidated statement of comprehensive income

For the year ended December 31st 2017
PLN '000

	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Net profit for period		295,198	248,677
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	*10*	(56,027)	7,082
Cash flow hedges		7,262	-
Income tax on evaluation of hedge instruments		(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		(50,145)	7,082
Total comprehensive income for period		245,053	255,759
Total comprehensive income attributable to:			
Owners of the Parent		244,950	255,745
Non-controlling interests		103	14
Total comprehensive income for period		245,053	255,759

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 2017
PLN '000

	Note	Dec 31 2017	Dec 31 2016
Assets			
Cash and cash equivalents	*20*	173,284	267,384
Trade receivables	*19*	16,623	13,452
Investments	*16*	3,169,303	2,676,202
Other receivables	*19*	64,244	28,145
Inventories	*18*	494	485
Property, plant and equipment	*13*	28,669	27,473
Goodwill	*15*	54,003	54,004
Other intangible assets	*14*	26,830	19,693
Hedge derivatives	*25*	8,637	-
Other assets	*21*	18,042	5,658
Total assets		3,560,128	3,092,496
Equity and liabilities			
Liabilities			
Hedge derivatives	*25*	(1,375)	-
Trade and other payables	*28*	143,449	166,047
Employee benefit obligations	*26*	28,715	34,396
Income tax payable		14,401	4,079
Liabilities under borrowings and other debt instruments	*24*	1,897,223	1,646,411
Deferred tax liability	*18*	14,444	4,057
Total liabilities		2,099,607	1,854,990
Equity			
Share capital	*23*	18,808	18,744
Share premium		293,581	288,326
Cash flow hedging reserve		5,882	-
Exchange differences on translating foreign operations		(56,619)	(592)
Other capital reserves		86,805	76,658
Retained earnings		1,111,961	854,354
Equity attributable to owners of the Parent		1,460,418	1,237,490
Non-controlling interests		104	14
Total equity		1,460,522	1,237,504
Total equity and liabilities		3,560,128	3,092,496

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 year ended December 31st 2017 *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 2016		17,398	64,382	-	(7,674)	68,956	641,182	784,244	34	784,278
Comprehensive income for period										
Net profit for period		-	-	-	-	-	248,663	248,663	14	248,677
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	7,082	-	-	7,082	-	7,082
Total other comprehensive income		-	-	-	7,082	-	-	7,082	-	7,082
Total comprehensive income for period		-	-	-	7,082	-	248,663	255,745	14	255,759
Contributions from and distributions to owners										
- Payment of dividends		-	-	-	-	-	(35,491)	(35,491)	(34)	(35,525)
- Share-based payments		-	-	-	-	7,702	-	7,702	-	7,702
- Issue of shares		1,346	223,944	-	-	-	-	225,290	-	225,290
Total contributions from and distributions to owners		1,346	223,944	-	-	7,702	(35,491)	197,501	14	197,467
Total equity as at Dec 31 2016		18,744	288,326	-	(592)	76,658	854,354	1,237,490	14	1,237,504
Equity as at Jan 1 2017		18,744	288,326	-	(592)	76,658	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	-	-	-	7,262	-	7,262
Total other comprehensive income		-	-	5,882	(56,027)	-	-	(48,765)	-	(48,765)

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Total comprehensive income for period		-	-	-	(56,027)	-	295,095	246,330	103	246,433
Contributions from and distributions to owners										
- Payment of dividends	*23*	-	-	-	-	-	(37,488)	(37,488)	(13)	(37,501)
- Issue of shares	*23*	64	5,255	-	-	-		5,319	-	5,319
- Share-based payments	*31*	-	-	-	-	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)	86,805	1,111,961	1,460,418	104	1,460,522

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

Consolidated statement of cash flows

For the year ended December 31st 2017
PLN '000

	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Cash flows from operating activities			
Net profit for period		295,198	248,677
Adjustments			
Depreciation of property, plant and equipment	*14*	10,941	8,401
Amortisation of intangible assets	*15*	7,736	5,137
Net finance costs		66,999	67,354
(Gain)/loss on sale of property, plant and equipment		(916)	(306)
Equity-settled share-based payments	*31*	10,147	7,702
Income tax	*12*	39,987	37,671
Change in loans advanced	*17*	3,604	(6,463)
Change in debt and property portfolios purchased	*17*	(552,668)	(1,040,732)
Change in inventories	*19*	(9)	102
Change in trade and other receivables	*20*	(39,270)	(6,487)
Change in other assets	*22*	(12,385)	(2,189)
Change in trade and other payables	*28*	(26,389)	60,989
Change in employee benefit obligations	*26*	(5,683)	5,157
Change in provisions	*27*	-	(264)
Cash flows from operating activities of newly acquired companies		-	(1,534)
Income tax paid		(20,657)	(6,346)
Net cash from operating activities		(223,365)	(623,132)
Cash flows from investing activities			
Interest received	*11*	310	363
Sale of intangible assets and property, plant and equipment		4,811	1,003
Acquisition of shares	*16*	-	(60,046)
Purchase of intangible assets and property, plant and equipment	*14, 15*	(24,641)	(15,363)
Net cash from investing activities		(19,520)	(74,043)
Cash flows from financing activities			
Net proceeds from issue of shares	*23*	5,255	223,944
Proceeds from issue of debt securities	*25*	168,391	832,868
Increase in borrowings	*25*	1,233,371	1,557,330
Repayment of borrowings	*25*	(1,005,860)	(1,526,613)
Payments under finance lease contracts	*25*	(7,904)	(5,790)
Payment of dividends	*23*	(37,501)	(35,525)
Redemption of debt securities	*25*	(135,000)	(154,000)
Interest paid		(71,968)	(68,398)
Net cash from financing activities		148,784	823,816
Total net cash flows		(94,101)	126,642

Cash and cash equivalents at beginning of period		267,384	140,742
Cash and cash equivalents at end of period	*21*	173,284	267,384

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

Accounting policies and notes to the consolidated financial statements

1. Parent

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

Registered office:
ul. Wołowska 8
51-116 Wrocław, Poland

Registration in the National Court Register
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16, 53-230 Wrocław, Poland
Date of entry: 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 2017 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 2017	Dec 31 2016
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%	100%
InvestCapital Malta 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%
Credit Base International S.r.l	Italy	-	100%
Elleffe Capital S.r.l.*	Italy	100%	100%
Espand Soluciones de Gestion S.L.	Spain	-	100%
BISON NS FIZ*	Poland	100%	-
Corbul S.r.l***	Romania	-	-

* 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 June 22nd 2017, a notarial deed concerning the merger of two subsidiaries of KRUK S.A. – Credit Base International S.r.l. and KRUK Italia S.r.l. – was signed. In accordance with the deed, the merger was effected on July 3rd 2017 by KRUK Italia S.r.l. taking over all assets, rights and obligations of Credit Base International S.r.l.

On October 1st 2017, a notarial deed concerning the merger of two subsidiaries of KRUK S.A. – Espand Soluciones de Gestion S.L. and KRUK Espana S.L. – was signed. In accordance with the deed, the merger was effected on October 1st 2017 by KRUK Espana S.L. taking over all the assets, rights and obligations of Espand Soluciones de Gestion S.L.

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 19th 2017.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of auhtorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as a going concern.

2.2. Basis of valuation

These consolidated financial statements have been prepared for the reporting period from January 1st 2017 to December 31st 2017. The comparative data is presented as at December 31st 2016 and for the period from January 1st 2016 to December 31st 2016.

These consolidated financial statements have been prepared on the historical cost basis, save for financial instruments measured at fair value through profit or loss (Note 3.3).

2.3. Functional currency and presentation currency

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

2.4. Accounting estimates and judgements

In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to 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 No.	Assumptions and estimate calculation
	2016 *(PLN '000)*	2017 *(PLN '000)*		
Investments	2,676,202	3,169,303	3.3.1	The value of a purchased debt portfolio 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 independently for individual markets. 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. The Kruk Group regularly reviews the amount of debt collection costs to ensure that they are equal to the costs prevailing on the market. These costs affect the measurement of debt portfolios, and their changes are charged to profit or loss for the year.
Goodwill	54,003	54,003	3.6.1 3.9.2 15	Goodwill impairment is estimated based on the expected cash flows to be derived from a cash-generating unit. No goodwill impairment was identified in the period under analysis.
Deferred tax liabilities	4,057	14,444	3.17	As the KRUK Group is able to control the origination and reversal of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years) in connection with taxable temporary differences, i.e. differences which will increase future taxable profit.

Item	Amount subject to judgement		Note No.	Assumptions underlying judgements
	2016 ***(PLN '000)***	**2017** ***(PLN '000)***		
Investments	153,525	134,852	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 and not as an equity-accounted transaction.
Functional currency at InvestCapital	0	(45,125)	10	InvestCapital carries out material transactions in three different currencies: EUR, PLN, and RON. The Kruk Group assesses the correctness of adapting the functional currency to executed transactions on a quarterly basis, taking into account both historical and planned transactions. The functional currency of InvestCapital is EUR.

2.5. Impact of the final accounting for goodwill on the consolidated statement of financial position

On November 7th 2016 and December 20th 2016, the KRUK Group acquired two companies, i.e. Base International S.r.l and Espand Soluciones de Gestion S.L. The statement of financial position as at December 31st 2016 presented temporary goodwill which arose on the acquisition. The KRUK Group had 12 months from the acquisition date to finally account for the goodwill which arose on the acquisition (see Notes 14 and 15).

In 2017, Credit Base International S.r.l changed its name to Kruk Italia S.r.l, and Espand Soluciones de Gestion S.L. – to KRUK Espana S.L.

The impact of the final accounting for purchase price allocation on the opening balance in 2017 is presented below.

As at December 31st 2017
PLN '000

	Note	Jan 1 2017 – restated	Impact of the final purchase price allocation	Dec 31 2016 – before restatement
Assets				
Cash and cash equivalents	*21*	267,384		267,384
Trade receivables	*20*	13,452		13,452
Investments	*17*	2,676,202		2,676,202
Other receivables	*20*	28,145		28,145
Inventories	*19*	485		485
Property, plant and equipment	*14*	27,473		27,473
Goodwill	*16*	54,003	(8,601)	62,604
Other intangible assets	*15.16*	19,693	5,400	14,293
Other assets	*22*	5,658		5,658
Total assets		3,092,496	(3,201)	3,095,697
Equity and liabilities				
Liabilities				
Hedge derivatives	*25*	-		-
Trade and other payables	*28*	166,047	(3,201)	169,248
Employee benefit obligations	*26*	34,396		34,396
Income tax payable		4,079		4,079
Liabilities under borrowings and other debt instruments	*24*	1,646,411		1,646,411
Deferred tax liability	*18*	4,057		4,057
Total liabilities		1,854,990	(3,201)	1,858,191

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Equity				
Share capital	*23*	18,744		18,744
Share premium		288,326		288,326
Cash flow hedging reserve		-		-
Exchange differences on translating foreign operations		(592)		(592)
Other capital reserves		76,658		76,658
Retained earnings		854,354		854,354
Equity attributable to owners of the Parent		1,237,490	-	1,237,490
Non-controlling interests		14	-	14
Total equity		1,237,504	-	1,237,504
Total equity and liabilities		3,092,496	(3,201)	3,095,697

3. Significant accounting policies

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

3.1. Basis of consolidation

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.

The Group recognises goodwill calculated as fair value of the payment made, including the recognised value of non-controlling interest in the acquire, less net value of the identifiable assets acquired and liabilities assumed as at the date of acquisition at fair value.

The payment made includes the fair value of transferred assets, liabilities incurred by the Group towards the previous owners of the acquire, and shares issued by the Group. The payment made also includes the fair value of a part of the conditional payment. If as a result of the acquisition previous liabilities between the Group and the acquire expire, the value of payment is decreased by the contractual price for the expiration of liability and recognised as other costs.

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 Bank in the subsidiaries and the equity of these subsidiaries at 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.

Balances of settlements between the Group's entities, transactions concluded within the Group and any resulting unrealised gains or losses, as well as revenues and costs of the Group are eliminated at consolidation.

3.1.1. Business acquisitions

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.
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.

3.1.2. Business combinations

Combination of jointly controlled entities is effected 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 from the 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

Financial assets are classified into the following categories:
- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under claim assignment agreements. Prices paid by the Group for such debt portfolios are significantly lower than their nominal value. The Group classifies debt portfolios purchased prior to January 1st 2014 as financial assets at fair value through profit or loss because they were designated as such on initial recognition. As of January 1st 2014, all purchased debt portfolios were classified as loans and receivables to better reflect the portfolio management strategy which, as of that date, focuses on maximising recoveries.

Financial assets held to maturity

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

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

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting date.

Financial assets at fair value through profit or loss

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

a) it is classified as held for trading. A financial asset is classified as held for trading if:

- it is acquired principally for the purpose of selling it in the near future,
- it is part of a portfolio of identified financial instruments that are managed together and for which there is the probability of short-term profit-taking,
- it is a derivative (except for a derivative that is a financial guarantee contract or a hedging instrument),

b) it is designated as such upon initial recognition.

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.

Purchased debt portfolios

Debt portfolios purchased before January 1st 2014 are initially recognised at cost, which is equal to their fair value. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period. The Group measures debt portfolios purchased prior to January 1st 2014 at least four times in an annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio as at the measurement date is determined on the basis of reliably estimated fair value, calculated using

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

When determining the cash flow timing, the Group takes into account the expected time when the cash flows resulting from the use of individual collection tools arise. The expected period in which proceeds from collection of debts in a given portfolio will be obtained is based on relevant historical data.
In the case of portfolios purchased on new markets, where the Group has a short, or no, history of separate output data, cash flows are estimated using operational information collected so far on those markets, supplemented with data and observations from the markets on which the Group has gained experience and collected historical data with respect to future cash flows.

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 a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate (but only with regard to the risk-free rate) are disclosed as revenue earned in a given period. These amounts are disclosed as operating income as the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.
Revaluation of purchased debt portfolios is defined as a change in their fair value caused by interest rate fluctuations and/or change of estimates concerning future cash flows. Any differences between actual and forecast recoveries are presented as revenue and recognised under interest income adjusted for actual recoveries.

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 (according fair value)

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 Group. Portfolio groups are made of portfolios that are at similar recovery phases. The Group 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months 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 include loans advanced, trade receivables and debt portfolios purchased on or after January 1st 2014.

Purchased debt portfolios

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on purchase date at acquisition price plus transaction costs.
The effective interest rate, equal to the internal rate of return, used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the initial value (acquisition price plus transaction costs), and remains unchanged throughout the life of a portfolio.

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

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

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

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 (according amortised costs methodology)
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 Group. Portfolio groups are made of portfolios that are at similar recovery phases. The Group 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.

<u>Novum loans</u>

NOVUM loans are measured at amortised cost, using the effective interest rate method. 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 NOVUM portfolio loans are classified into four categories depending on the period of delinquency.
Classification method:
- in each valuation month, discounted future instalments and overdue principal of NOVUM loans are classified into the following four categories depending on the number of days past due:
[0-30 DPD]; [31-60 DPD]; [61<=DPD]; [terminated loans];
- the aggregate amount of future instalments and the amount of overdue principal from all categories represent the carrying amount of the entire portfolio:

$$Portfolio carrying\ amount = \sum_{i}^{4} Amount\ of\ future\ instalments_{\ i} + \sum_{i}^{4} Amount\ of\ overdue\ principal_{\ i}$$

where:
- i: category number, (DPD – number of days after the earliest due date)
- Amount of future instalments: NPV of future cash flows from the loan portfolio calculated based on the repayment schedule for instalments due in the future
- Amount of overdue principal - amount of principal due based on the repayment schedule, but not paid by clients
- in each valuation month, loss ratios for each category are calculated (loss ratio in a given category is calculated based on historical data on balances due and repayments made by the borrowers);
- impairment loss in a valuation month represents the aggregate impairment losses in all the categories, calculated according to the existing formula:

$$Impairment\ loss\ (T) = \sum_{i}^{4} Impairment\ loss\ (T)_{\ i} = \sum_{i}^{4} Amount\ of\ future\ instalments\ (T)_i * loss\ ratio\ (T)\ \ _i + \sum_{i}^{4} Amount\ of\ overdue\ principal\ (T)_{\ i} * loss\ ratio\ (T)\ \ _i$$

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

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the three asset categories specified above. Financial assets available for sale are recognised at fair value plus transaction costs directly attributable to the acquisition or issue of a given asset. For equity instruments where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of tax, are recognised in other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment is recorded as finance cost.
Purchase and sale of financial assets are recognised at the transaction date. Initially, a financial asset is recognised at its fair value, plus, for financial assets other than classified as financial assets at fair value through profit and loss, transaction costs which are directly attributable to the purchase.
Financial assets are derecognised from the statement of financial position if the Group loses control of contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

3.3.2. Financial liabilities other than derivative instruments

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of a financial instrument.
The Group recognises a financial liability when the liability has been repaid, written off or is time barred.
Financial assets and liabilities are set off against each other and disclosed at net amounts in the statement of financial position only if the Group holds a legally valid title to set off specified financial assets and liabilities and if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

The Group classifies financial liabilities other than derivative instruments as other financial liabilities. Such liabilities are initially recognised at fair value plus directly attributable transaction cost. Following initial recognition, such liabilities are measured at amortised cost with the use of the effective interest rate.
Fair value estimated for the purpose of disclosure is calculated based on the present value of future cash flows from repayment of principal and payment of interest, discounted using the market interest rate effective as at the end of the reporting period. For finance lease liabilities, the market interest rate is determined with reference to similar lease agreements. Liabilities with short maturities and liabilities for which interest rates are adjusted for changes in base rates on an on-going basis are not discounted because their carrying amount is approximately equal to their fair value.
The Group holds the following financial liabilities: borrowings, liabilities under debt securities, and trade and other payables.
The Group presents liabilities related to purchased debt portfolios under trade payables.

3.3.3. Derivative instruments and hedge accounting

Application of hedge accounting

The condition for the application of hedge accounting by the Company is the fulfilment of all requirements listed below:

- at the moment of designating the hedging relationship there is a formal documentation containing a description of hedging relationship, the purpose of risk management, the strategy of establishing the collateral, identification of hedging instrument, position or hedged transaction, the character of hedged risk and the method of assessment of effectiveness of hedging relationship,
- the collateral will be highly effective in offsetting cash flows connected with hedged risk in accordance with the documentation regarding hedging relationship,
- the future transaction which accounts for the subject of collateral is highly probable and is exposed to risk of changes in cash flows that will affect the income statement,
- the effectiveness of collateral for hedged risk can be reliably assessed on the basis of valuation of cash flows related to the hedged item,
- the assessment of effectiveness of hedging relationship is made for each reporting period, no less than once per quarter.

Discontinuing of hedge accounting

In the cases listed below, the Company ceases to apply hedge accounting:

- the hedging relationship no longer meets the criteria for hedge accounting. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in separate position in revaluation reserve and are accounted for period of time in which the hedged item goes to income statement,
- the hedged instrument expires, is sold, terminated or settled. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in separate position in revaluation reserve and are accounted for period of time in which the hedged item goes to income statement,

- the implementation of the planned transaction does not seem to be highly probable. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in income statement.

Cash flow hedge

Protection against variability of cash flows due to the type of identified risk associated with recognized asset or liability or with a highly probable future transaction which could affect the income statement, accounts for hedging of cash flows.

Changes in the fair value of the derivative hedging instrument designated as a hedging of cash flows are recognized directly in other comprehensive income in the part constituting effective part of hedging. The ineffective part of hedge is recognized in income statement. In addition, the amounts charged directly to the revaluation reserve are transferred to the income statement in the same period or periods in which the effect of hedged transaction is referred to income statement.

The effectiveness of hedging is verified through the usage of prospective and retrospective effectiveness tests. Tests are carried out 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 and amortisation

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

Depreciation cost is recognised in the current period's profit or loss, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

Assets used under finance lease agreements or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Group is certain that it obtains ownership before the end of the lease. Land is not depreciated.

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

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

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

3.5. Investment property

As part of collection of purchased debt, the Group forecloses selected property on the basis of final court rulings and applies it towards debt repayment. Investment property is initially measured at cost, including transaction costs. Following 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 **Błąd! Nie można odnaleźć źródła odwołania.**.

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.

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 agreements

Lease agreements under which the Group assumes substantially all risks and benefits resulting from the ownership of property, plant and equipment are classified as finance lease agreements. Assets acquired under

finance lease agreements are initially recognised at the lower of their fair value or present value of the minimum lease payments, less any depreciation charges and impairment losses.
Lease agreements which are not finance lease agreements are treated as operating lease and not recognised in the statement of financial position.

3.7. Investments

Investments include:

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

3.8. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks, as well as short-term deposits with original maturities of up to three months. Cash is disclosed in nominal amounts. In the case of cash in bank accounts, its nominal amount as at the 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 particular financial asset is deemed to be impaired if, after its initial recognition, objective criteria indicating the occurrence of an event which might have a reliably estimated negative effect on projected cash flows related to that asset, have been met.

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

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

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

The 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 infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year.

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

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

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

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

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

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

3.10. Equity

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

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 be unconditionally vested. 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 scheme, 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 valuation of the plan, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is purchase the shares corresponding to such options on the first day following the vesting period. The 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 purchase debt portfolios.

Revenue from fee-based credit management services

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

Revenue from debt purchase

<u>Revenue from debt portfolios measured at fair value</u>

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 debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. These amounts are disclosed as operating income as collection of purchased debt portfolios is the KRUK Group's core business.

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

Revenue from debt portfolios measured at amortised cost

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

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. Actual cash flows received from collections during the period are recognised as a decrease in the portfolio value. Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of expected future cash flows 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 advanced, calculated using the effective interest rate method, net of impairment.

3.15. Lease payments

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

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

3.16. Finance income and costs

Finance income includes interest income on funds invested by the Group (net of income on purchased debt, see Section 3.3, and revenue from loans advanced 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 carryforwards, 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.

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 2017 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 2018:

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 15 *Revenue from Contracts with Customers*	This standard contains rules which will replace most of the detailed guidelines for recognising revenue currently prescribed by the IFRS. In particular, following the adoption of the new standard, the provisions of IAS 18 *Revenue,* IAS 11 *Construction Contracts* and the related Interpretations will no longer apply. According to the new Standard, a five-step model will be used to determine the moment of revenue recognition and its amount. Under the model, revenue should be recognised when (or to the extent that) the entity transfers control of goods or services to a customer, and in the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised either: - over time, reflecting the contract performance by the Group, or	The Group does not expect the Standard to have a significant effect on its consolidated financial statements.	January 1st 2018

	- on a one-off basis at a point in time when control of goods or services is transferred to the customer. The standard contains new requirements for disclosures, both quantitative and qualitative, designed to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.		
IFRS 9 *Financial Instruments (2014)*	The new Standard replaces the guidance contained in IAS 39 *Financial Instruments: Recognition and Measurement* regarding classification and measurement of financial assets, including their impairment. IFRS 9 also eliminates the existing IAS 39 categories of financial assets held to maturity, available for sale, and loans and receivables. In accordance with the new standard, financial assets should be classified at initial recognition into one of three categories: • financial assets measured at amortised cost; • financial assets at fair value through profit or loss; or • financial assets at fair value through other comprehensive income. After initial recognition a financial asset is measured at amortised cost if the following two conditions are met: • the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and	It is expected that at the time of initial application, the new Standard will have a significant effect on the financial statements. The description of changes and their effect is presented below in Section **Błąd! Nie można odnaleźć źródła odwołania.**.	January 1st 2018

	• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. If the above requirements are not met (as, for instance, in the case of equity instruments of other entities), the financial asset is measured at fair value. Gains and losses on remeasurement of financial assets at fair value are recognised in profit or loss, except for assets held within a business model whose objective is to hold assets in order to collect contractual cash flows or sell them, in which case the gains and losses on remeasurement are disclosed in other comprehensive income. Furthermore, if an investment in an equity instrument is not held for trading, IFRS 9 allows the entity to make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. The election can be made on an instrument-by-instrument basis. No amount recognised in other comprehensive income in connection with such measurement may be reclassified to profit or loss of the current period at a later date. The standard retains almost all of the existing requirements of IAS 39 on classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as measured at fair value through profit or loss be presented in other comprehensive income,		

	with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss or if the financial liability relates to a loan commitment or a financial guarantee contract, then the whole fair value change is presented in profit or loss. As regards measurement of impairment of financial assets, IFRS 9 replaces the old "incurred loss" model introduced by IAS 39 with the concept of "expected loss", which means that the event resulting in a loss does not have to precede its identification and recognition of impairment. The new rules are designed to prevent situations in which impairment on credit losses is recognised too late or its amount is insufficient. In short, the expected loss model provides for two measurement approaches, whereby the amount of loss can be determined in reference to: • 12-month expected credit losses; or • life-time expected loss. The choice of the approach depends on whether the credit risk associated with an asset has increased significantly since its initial recognition. If the credit risk related to financial assets has not increased significantly since initial recognition, the impairment loss on those financial assets is measured at an amount equal to the 12-month expected credit losses. However, if the credit risk has increased materially, the impairment loss is equal to the lifetime expected loss and thus increases the amount of recognised impairment loss. The standard further introduces a rebuttable presumption		

	that a delay in contractual payments exceeding 30 days is sufficient grounds for the recognition of credit loss.		
Amendments to IFRS 15 *Revenue from Contracts with Customers*	Amendments to IFRS 15 clarify some of the requirements imposed by the Standard and include a number of simplifications regarding the transition period for entities adopting the new Standard. The amendments clarify how companies should: • identify a performance obligation (the promise to transfer a good or a service) in a contract; • determine whether a company is a principal (the provider of a good or service) or an agent responsible for arranging for the good or service to be provided; and • determine whether the revenue from granting a licence should be recognised at a point in time or over time. The amendments also include two additional simplifications designed to help companies apply the Standard for the first time and reduce related costs.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2018
Amendments to IFRS 4 *Insurance Contracts*	The amendments provide for two optional solutions: the overlay approach and the deferral approach, in order to ease the impact of the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming insurance contracts standard. The different effective dates of these regulations may give rise to temporary volatility in profit or loss and accounting mismatches.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2018

	The amendments will provide: • companies issuing insurance contracts – with an option to recognise the volatility of profit or loss resulting from the application of IFRS 9 in other comprehensive income until the new insurance contracts standard comes into force; and • companies whose activities are predominantly connected with insurance – with an optional temporary exemption from IFRS 9 until 2021. Companies which will defer the adoption of IFRS 9 will continue to apply IAS 39 *Financial Instruments*.		
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. Recognising an operating lease in the statement of financial position will result in the recognition of a new asset, i.e. the right to use the leased asset, and a new liability, i.e. the obligation to make lease payments. Right-of-use assets will be depreciated, while interest will accrue on liabilities. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments. Lessors will continue to classify leases as either operating or finance and thus recognise most leases without any changes.	The new standard is being examined by the Group, but it is not expected to have a significant impact on its consolidated financial statements.	January 1st 2019

3.20.2. Impact of IFRS 9 on the Group's consolidated financial statements

The Group intends to adopt the new IFRS 9 as of its effective date. The effect of application of the classification, measurement and impairment principles 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. In 2017, the Group completed an assessment of the impact which the adoption of the standard would have in all the three areas.

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

The Group assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value will be measured at amortised cost as of January 1st 2018, as the business model test confirmed the validity 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 29,605 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 advanced 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 Group recognised higher impairment losses on trade and other receivables in the opening balance of 2018 to reflect the expected impairment of these assets in accordance with the new standard. These additional impairment losses are estimated at 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 2017
PLN '000

	Jan 1 2018 – restated	Impact of IFRS 9	Dec 31 2017
Assets			
Cash and cash equivalents	173,284	-	173,284
Trade receivables	16,041	(582)	16,623
Investments	3,198,908	29,605	3,169,303
Other receivables	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	3,588,298	28,170	3,560,128
Equity and liabilities			
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
Exchange differences on translating foreign operations	(56,619)	-	(56,619)
Other capital reserves	86,805	-	86,805
Retained earnings	1,140,131	28,170	1,111,961
Equity attributable to owners of the Parent	1,488,588	28,170	1,460,418
Non-controlling interests	102	-	102
Total equity	1,488,690	28,170	1,460,520
Total equity and liabilities	3,588,298	28,170	3,560,128

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

3.20.3. 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
IFRS 14 *Regulatory Deferral Accounts*	This interim standard: • permits an entity which is a first-time adopter of IFRS to continue to account for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements; • requires that regulatory deferral account balances and movements in them be presented separately in the financial statements; and • requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation giving rise to the recognition of regulatory assets and liabilities under the interim standard.	This interim standard is not expected to have a significant impact on the Group's consolidated financial statements as it applies exclusively to first-time adopters of IFRSs.	January 1st 2016 *(The European Commission has decided not to endorse this interim standard in anticipation of the final standard)*
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 address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 regarding the loss of control over a subsidiary contributed to an associate or joint venture. While IAS 28 limits the gain or loss resulting from the contribution of non-monetary assets to an associate or joint venture to the level of unrelated investors' interests in the associate or joint venture, IFRS 10 requires full recognition of the gain or loss from the loss of control over a subsidiary. The amendments require that the gain or loss be recognised in full where the contributed assets satisfy the definition of a business within	It is expected that on initial application, the amendments may have an impact on the Group's consolidated financial statements, which, however, has not yet been estimated.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*

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
	the meaning of IFRS 3 *Business Combinations* (irrespective of whether such business has the form of a subsidiary or not). Partial recognition of the gain or loss (to the extent of unrelated investors' interests) applies where a transaction involves assets which do not constitute a business, even if the assets were held by a subsidiary.		
Amendments to IFRS 2 *Share-based Payment*	The amendments, which clarify the recognition of certain share-based payment transactions, lay down requirements for accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle	The Annual Improvements to IFRS Standards 2014–2016 Cycle contain three amendments, which: • delete short-term exemptions for first-time adopters of IFRS (IFRS 1 First-time Adoption of International Financial Reporting Standards), including the interim requirements of IFRS 7	These amendments are not expected to have a significant impact on the Group's consolidated financial statements.	January 1st 2018 (with the exception of amendments to IFRS 12, which apply to annual periods beginning on or after January 1st 2017)

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
	Financial Instruments: Disclosures on qualitative and quantitative disclosures and transfers of financial assets, and IAS 19 *Employee Benefits*; • clarify that the requirements of IFRS 12 *Disclosure of Interests in Other Entities* (except for disclosures of summarized financial information in accordance with paragraphs B10–B16 of the standard) also apply to an entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and • clarify that the election not to apply the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* should be made separately for each associate or joint venture and also specify when such election must be made.		
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 22 clarifies which exchange rate to use for reporting transactions that involve advance consideration paid or received in a foreign currency (such as income transactions), and explains that the date of the transaction is the date of initial recognition of prepayments or deferred income arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, a date of the	The Group does not expect IFRIC 22 to have a significant impact on its consolidated financial statements.	January 1st 2018

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**
	transaction must be determined for each payment or receipt of advance consideration.		
Amendments to IAS 40 *Investment Property*	The amendments provide the following guidance on transfers of property to, or from, investment property: • transfers of property to, or from, investment property should only be made when there is a change in use; and • a change in use should be accompanied by an assessment of whether the property can be classified as an investment property.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2018
IFRS 17 *Insurance Contracts*	IFRS 17, which is to replace interim IFRS 4 *Insurance Contracts*, lays down recognition, measurement, presentation and disclosure principles for insurance contracts within the scope of the standard. In contrast to IFRS 4, which largely permits insurance contracts to continue to be accounted for in accordance with GAAP based on local regulations, IFRS 17 establishes a new comprehensive model (general measurement model) which combines the current recognition of technical provisions in the statement of financial position with the recognition of profit in the period in which the insurance coverage is provided and also: - is based on the concept of fulfilling contract obligations and applies current assumptions;	The Group does not expect the Standard to have a significant effect 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
	- establishes a single revenue recognition principle to reflect the service provided; - can be modified for some contracts.		
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 is examining the impact of IFRIC 23 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
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 amendments to have a significant impact on its consolidated financial statements.	January 1st 2019
Amendments to IAS 28 *Investments in Associates and Joint Ventures*	The amendments clarify that entities apply IFRS 9 *Financial Instruments* to investments in subsidiaries 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

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 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**
Collection 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)**
Collection services	-	-	-	-	**(44,210)**
Other products	-	-	-	-	**(9,319)**
Gross profit (*)					**589,419**
Purchased debt portfolios	-	-	-	-	**559,238**
Collection 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)**

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Net profit	-	-	-	-	**295,198**
Carrying amount of debt portfolios	**1,434,171**	**857,117**	**534,377**	**294,897**	**3,120,562**

For the year ended December 31st 2016

	Poland	**Romania**	**Italy**	**Other foreign markets**	**TOTAL**
Revenue	**423,766**	**311,917**	**9,073**	**38,642**	**783,398**
Purchased debt portfolios	370,667	307,058	9,073	38,133	**724,931**
Collection services	26,831	4,859	-	509	**32,199**
Other products	26,268	-	-	-	**26,268**
Direct and indirect costs					**(306,841)**
Purchased debt portfolios	-	-	-	-	**(270,665)**
Collection services	-	-	-	-	**(23,283)**
Other products	-	-	-	-	**(12,894)**
Gross profit (*)					**476,556**
Purchased debt portfolios	-	-	-	-	**454,266**
Collection services	-	-	-	-	**8,916**
Other products	-	-	-	-	**13,374**
Administrative expenses	-	-	-	-	**(117,267)**
Depreciation and amortisation	-	-	-	-	**(13,538)**
Other income	-	-	-	-	**8,773**
Other expenses (unallocated)	-	-	-	-	**(5,501)**
Finance income/costs	-	-	-	-	**(62,675)**

Profit before tax	-	-	-	-	**286,347**
Income tax	-	-	-	-	**(37,671)**
Net profit	-	-	-	-	**248,677**
Carrying amount of debt portfolios	**1,318,110**	**751,692**	**342,130**	**229,014**	**2,640,946**

(*) Gross profit – operating income – operating expenses

5. Revenue

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Revenue from debt purchase	971,743	724,931
Revenue from credit management	59,102	32,199
Revenue from other services	24,608	26,268
	1,055,453	783,398

Revenue from debt purchase

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Interest income adjusted for actual recoveries	872,653	636,521
Revaluation of debt portfolios	88,709	84,229
Sale of debts	1,989	384
Foreclosure of property	7,768	3,718
Sale of property	624	79
	971,743	724,931

Revaluation of debt portfolios

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Revision of recovery forecast	104,827	82,599
Change due to change in discount rate	(2,303)	(1,480)
Foreign currency gains/losses	(13,816)	3,110
	88,709	84,229

The Group verifies projections of recoveries under debt portfolios on a quarterly basis, and every quarter it recognises changes in portfolio value. In 2017, the aggregate amount of portfolio revaluation was PLN 104,827 thousand (2016: PLN 82,599 thousand), and was recognised as revenue from purchased portfolios.

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Interest income adjusted for actual recoveries	310,341	315,137
Revaluation of debt portfolios	175,445	144,506
Sale of debts	753	-
Foreclosure of property	1,200	1,837
Sale of property	(13)	(83)
	487,726	461,397

Revaluation of debt portfolios measured at fair value

PLN '000

	Jan 1 – Dec 31 2017	**Jan 1 – Dec 31 2016**
Revision of recovery forecast	180,664	143,659
Change due to change in discount rate	(2,303)	(1,480)
Foreign currency gains/losses	(2,917)	2,327
	175,445	144,506

The recovery forecast update is primarily based on an analysis of:
- debtors' behaviour patterns and effectiveness of the collection tools applied;
- exchange rate movements against PLN (for debt portfolios not measured in the functional currency).

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

Revenue from debt portfolios measured at amortised cost

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Interest income adjusted for actual recoveries	562,312	321,384
Revaluation of debt portfolios	(86,736)	(60,277)
Sale of debts	1,235	384
Foreclosure of property	6,569	1,881
Sale of property	637	162
	484,017	263,534

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Revision of recovery forecast	(75,837)	(61,060)
Foreign currency gains/losses	(10,899)	783
	(86,736)	(60,277)

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 2.3% of total revenue from fee-based credit management (2016: 10.89%).

6. Other income

PLN '000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Re-billed costs of services and court fees		2,508	371
Gain on sale of property, plant and equipment		916	324
Return of compensation for damage caused by motor vehicles		753	718
Reversal of impairment losses on receivables	29	250	862
Reversal of provision		-	3,805
Liabilities written off		-	863
Other		1,469	1,831
		5,896	8,773

7. Services

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Consultancy services	(36,947)	(27,112)
Postal and courier services	(23,889)	(12,207)
Collection services	(21,110)	(6,320)
Space rental and service charges	(18,187)	(13,956)
Banking services	(6,109)	(2,185)
Communications services	(5,926)	(4,194)
IT services	(5,815)	(3,916)
Other auxiliary services	(4,974)	(2,879)
Other rental	(2,765)	(1,256)
Printing services	(2,537)	(1,188)
Marketing and management services	(1,981)	(871)
Security	(1,322)	(829)
Recruitment services	(1,169)	(983)
Repair and maintenance services	(909)	(230)
Packing services	(435)	(386)
Repair of vehicles	(306)	(862)
Transport services	(82)	(41)
	(134,462)	(79,415)

8. Other expenses

PLN '000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Court fees		(143,430)	(92,642)
Taxes and charges		(42,817)	(34,108)
Raw materials and energy used		(14,472)	(11,301)
Advertising		(1,466)	(5,413)
Business trips		(8,428)	(4,664)
Staff training		(4,573)	(3,811)
Motor insurance		(1,834)	(1,278)
Entertainment expenses		(1,377)	(1,052)
Losses from damage caused by motor vehicles		(844)	(759)
Impairment losses on receivables	*29*	(164)	(475)
Property insurance		(544)	(337)
Other		(10,476)	(3,577)
		(230,426)	(159,417)

9. Employee benefits expense

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Salaries and wages	(196,654)	(144,272)
Old-age and disability pension contributions (defined contribution plans)	(34,245)	(25,227)
Other social security contributions	(14,677)	(12,425)
Contribution to the State Fund for the Disabled	(1,290)	(1,152)
Equity-settled cost of stock option plan	(10,147)	(7,702)
	(257,013)	(190,778)

10. Finance income and costs

Recognised as profit or loss for current period

Finance income

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Interest income on bank deposits	310	363
	310	363

Finance costs

	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Interest and commission expense on financial liabilities measured at amortised cost	(88,116)	(62,758)
Net foreign exchange losses	(1,087)	(280)
Interest income/expense on hedging instruments	3,306	-
	(85,897)	(63,038)

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

Recognised under other comprehensive income

Exchange differences on translating foreign operations

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Exchange differences on translating foreign operations	(56,027)	7,082
Attributable to:		
Owners of the Parent	(56,027)	7,082
Finance cost recognised directly in other comprehensive income	(56,027)	7,082

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
InvestCapital Ltd.	(46,219)	(65)
SeCapital S.à r.l.	(21,767)	5,253
KRUK Italia S.r.l	10,459	23
KRUK Deutchland GmbH	(1,635)	-
KRUK Espana S.L.	(548)	(821)
KRUK Romania S.r.l	(375)	66
Itacapital S.r.l.	879	492
KRUK Česká a Slovenská republika s.r.o.	1,738	1,179
Other	1,441	955
	(56,027)	7,082

11. Income tax

Income tax recognised in profit or loss of the period

PLN '000	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Income tax (current expense recognised in the income statement)			
Income tax (*)		(28,040)	(30,670)
Income tax (deferred expense recognised in the income statement)			
Origination/reversal of temporary differences	17	(9,007)	(7,001)
Income tax recognised in the income statement		(39,987)	(37,671)
Income tax (deferred expense recognized in other comprehensive income)			
Origination/reversal of temporary differences		(1,380)	-
Income tax recognised in other comprehensive income	17	(1,380)	-
		(41,367)	(37,671)

Reconciliation of effective tax rate

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Net profit for period	335,184	248,677
Income tax recognised in the income statement	(39,987)	(37,671)
Profit before tax for period (assuming 19% tax rate)	418,555	327,339
Profit before tax for period (assuming 16% tax rate)	17,406	991
Loss before tax for period (assuming 19% tax rate)	(12,996)	(19,519)
Loss before tax for period (assuming 25% tax rate)	(13,365)	(4,331)
Loss before tax for period (assuming 27.9% tax rate)	(63,347)	(8,694)
Loss before tax for period (assuming 30% tax rate)	(11,164)	(9,438)
Tax calculated at the tax rate applicable in Poland (19%)	(78,551)	(62,153)
Tax calculated at the tax rate applicable in the Czech Republic (19%)	1,495	3,669
Tax calculated at the tax rate applicable in Romania (16%)	(2,785)	(159)
Tax calculated at the tax rate applicable in Spain (25%)	3,341	1,083
Tax calculated at the tax rate applicable in Italy (27.9%)	17,674	2,426
Tax calculated at the tax rate applicable in Germany (30%)	3,349	2,831
Tax calculated at the tax rates applicable in individual countries	(55,477)	(52,303)
Effect of non-deductible expenses	15,490	14,632
Effect of tax-exempt income	-	-
	(39,987)	(37,671)
Effective tax rate (%)	11.93%	13.16%

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 2017
PLN '000

	Note	Dec 31 2017	Dec 31 2016
Assets			
Non-current assets			
Property, plant and equipment	*13*	28,669	27,473
Other intangible assets	*14,15*	26,830	19,693
Goodwill	*15*	54,003	54,003
Hedge derivatives	*25*	8,637	-
Total non-current assets		118,138	101,170
Current assets			
Inventories	*18*	494	485
Investments	*16*	3,169,303	2,676,202
Trade receivables	*19*	16,623	13,452
Other receivables	*19*	64,244	28,145
Cash and cash equivalents	*20*	173,284	267,384
Other assets	*21*	18,042	5,658
Total current assets		3,441,990	2,991,326
Total assets		3,560,128	3,092,496
Equity and liabilities			
Equity			
Share capital	*22*	18,808	18,744
Share premium		293,581	288,326
Cash flow hedging reserve		5,882	-
Exchange differences on translating foreign operations		(56,619)	(592)
Other capital reserves		86,805	76,658
Retained earnings		1,111,961	854,354
Equity attributable to owners of the Parent		1,460,418	1,237,490
Non-controlling interests		104	14
Total equity		1,460,522	1,237,504
Non-current liabilities			
Deferred tax liability	*17*	14,444	4,057
Non-current liabilities under borrowings and other debt instruments	*24*	1,636,696	1,377,085
Hedge derivatives	*25*	1,375	-
Total non-current liabilities		1,652,515	1,381,142
Current liabilities			
Current liabilities under borrowings and other debt instruments	*24*	260,527	269,326
Trade and other payables	*28*	143,449	166,047
Income tax payable		14,401	4,079
Employee benefit obligations	*26*	28,715	34,396
Current provisions	*27*	-	-
Total current liabilities		447,091	473,848
Total liabilities		2,099,6069	1,854,990

Total equity and liabilities	3,560,128	3,092,496

Investments in debt portfolios are overdue, payable debts that the KRUK Group presents under current assets.

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

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other prop-erty, plant and equipment	Property, plant and equipment under con-struction	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)
Transfer of property, plant and equipment under construction	-	-	-	-	-	-
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

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

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
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**
Net value						
As at Jan 1 2016	568	5,746	12,896	622	126	19,957
As at Dec 31 2016	718	7,815	16,716	1,038	1,187	27,473
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

Property, plant and equipment under leases

Under finance lease agreements, the Group uses cars and trucks whose net carrying amount as at December 31st 2017 and December 31st 2016 was PLN 9,952 thousand and PLN 13,959 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 24).

Property, plant and equipment under construction

In 2017 the Group incurred costs related to the purchase of IT and telecommunication equipment which was not placed in service as at December 31st 2017. Property, plant and equipment under construction stood at PLN 3,100 thousand and PLN 1,187 thousand as at December 31st 2017 and 2016, respectively.

14. Other intangible assets

PLN '000

	Software, licences, permits	Other	Total
Gross value of intangible assets			
Gross value as at Jan 1 2016	24,667	369	25,036
Produced internally	5,173	-	5,173
Other increase	9,052	-	9,052
Decrease	(3,579)	-	(3,579)
Effect of exchange rate changes	(30)	-	(30)
Gross value as at Dec 31 2016	35,283	369	36,652
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
			-

PLN '000

	Software, licences, permits	Other	Total
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2016	(13,649)	(369)	(14,018)
Amortisation	(5,137)	-	(5,137)
Decrease	3,285	-	3,285
Effect of exchange rate changes	(90)	-	(90)
Accumulated amortisation and impairment losses as at Dec 31 2016	(15,590)	(369)	(15,959)
Accumulated amortisation and impairment losses as at Jan 1 2017	(15,590)	(369)	(15,959)
Depreciation	(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)

PLN '000

	Software, licences, permits	Other	Total
Net value			
As at Jan 1 2016			
As at Dec 31 2016	11,017	-	11,017
	19,693	-	19,693
As at January 1st 2017	19,693	-	19,693
As at Dec 31 2017	26,830	-	26,830

The adjusted value as at January 1st 2017 is described in Note 2.5.

15. Goodwill

PLN '000

	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK Espana S.L.	ERIF BIG S.A.	Total
Gross value					
Gross value as at Jan 1 2016	299	-	-	725	1,024
Increase	-	5,002	47,977	-	61,580
Decrease	-	-	-	-	-
Gross value as at Dec 31 2016	299	5,002	47,977	725	54,003
Gross value as at Jan 1 2017	299	5,002	47,977	725	54,003
Decrease – elimination of intangible assets	-	-	-	-	-
Decrease – adjustment of an unused provision	-	-	-	-	-
Gross value as at Dec 31 2017	299	5,002	47,977	725	54,003
Net value					
As at Jan 1 2016	299	-	-	725	1,024
As at Dec 31 2016	299	5,002	47,977	725	54,003
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

The adjusted value as at January 1st 2017 is described in Note 2.5.

On November 7th 2016, the KRUK Group, acting through its Parent, acquired 100% of the shares in Credit Base International S.r.l of La Spezia, Italy ("CBI"), which in turn holds 100% of shares in Elleffe Capital S.r.l of La Spezia, Italy ("EFF"). CBI is a service provider with long-standing experience in debt collection services. EFF has been established for the purpose of purchasing debts managed by CBI. Following the acquisition of the service provider, the Group has become a major player on the credit management market in Italy, and has also gained significant support and necessary expertise to manage debt portfolios purchased on the Italian market. Acquisition of both companies was accounted for in accordance with IFRS 3.
Following the accounting for the transaction, there are no non-controlling interests in the acquiree.

The Group had 12 months from the acquisition date to finally account for the goodwill which arose on the acquisition.

Final accounting for the acquisition of Kruk Italia S.r.l:

PLN '000

ASSETS	Kruk Italia data as at Nov 7 2016 (based on value disclosed in financial statements)	Adjustment	Final data as at acquisition date – Nov 7 2016
Cash and cash equivalents	1,702	-	1,702
Trade receivables	3,919	-	4,077
Investments	2,810	1,344	4,154
Property, plant and equipment	138	-	138
Other intangible assets	192	-57	135
TOTAL ASSETS	**8,761**	**1,287**	**10,206**

LIABILITIES	Kruk Italia data as at Nov 7 2016 (based on value disclosed in financial statements)	Adjustment	Final data as at acquisition date – Nov 7 2016
Trade and other payables	5,970	-863	5,107
Employee benefit obligations	370	-	1,424
Liabilities under borrowings and other debt instruments	1,620	-	1,620
Provisions	967	-	967
TOTAL LIABILITIES	**8,927**	**-863**	**9,118**

Preliminary accounting for the acquisition of Elleffe:

PLN '000

ASSETS	Elleffe data as at Nov 7 2016 (based on value disclosed in financial statements)	Adjustment	Final data as at acquisition date – Nov 7 2016
Cash and cash equivalents	68	-	68
Investments	2,150	1,927	4,077
Other intangible assets	35	-	35
TOTAL ASSETS	2,253	1,927	4,180

LIABILITIES	Elleffe data as at Nov 7 2016 (based on value disclosed in financial statements)	Adjustment	Final data as at acquisition date – Nov 7 2016
Trade and other payables	261	-	261
TOTAL LIABILITIES	261	-	261

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 9,323 thousand. The data of the acquired entity was recognised as at the acquisition date (the effect on profit/(loss) for the last two months of 2016 was immaterial). In 2017, the Group completed the final accounting for goodwill resulting in the recognition of intangible assets of PLN 4,321 thousand which reduced the initially recognised goodwill (Note 14).

The Group tested the adjusted goodwill for impairment. The test did not indicate the need to recognise an impairment loss on goodwill.

On December 20th 2016, the Group, acting through its Parent, acquired 100% of shares in Espand Soluciones de Gestion of Madrid, Spain. In 2017, Espand Soluciones de Gestion was renamed to KRUK Espana S.L. As at the date of acquisition, Espand Soluciones de Gestion was a service company with a long-standing experience in debt collection on the Spanish market. The company employed an experienced team to support credit management agreements with, among others, leading Spanish banks. Following the acquisition of Espand Soluciones de Gestion, the Group has become a major player on the credit management market in Spain, and has also gained significant support and necessary expertise to manage debt portfolios purchased on the Spanish market.

The acquisition was accounted for in accordance with IFRS 3. Following the accounting for the transaction, there are no non-controlling interests in the acquiree. The KRUK Group had 12 months from the acquisition date to finally account for the goodwill which arose on the acquisition.

Preliminary accounting for the acquisition of Kruk Espana S.L.:

PLN '000

ASSETS	Kruk Espana data as at Dec 20 2016 (based on value disclosed in financial statements)	Adjustment	Final data as at acquisition date – Nov 7 2016
Cash and cash equivalents	1,641	-	1,641
Other receivables	2,654	-	2,654
Inventories			
Property, plant and equipment	1,092	-	1,092
Other intangible assets	60	-	60
Other assets	2	-	2
TOTAL ASSETS	5,449	-	5,449

LIABILITIES	Kruk Espana data as at Dec 20 2016	Adjustment	Final data as at acquisition date – Dec 20 2016
Trade and other payables	1,673	848	2,521
Employee benefit obligations	-	640	640
TOTAL LIABILITIES	1,673	1,488	3,161

The acquired assets and liabilities were measured at fair value. Following the acquisition, the Group recognised goodwill of PLN 52,257 thousand (of which PLN 11,758 thousand was deposited in a joint account until final accounting for the transaction). The acquiree data was recognised as at the acquisition date (the effect on profit/(loss) for the last ten days of 2016 was immaterial).

In 2017, the Group completed the final accounting for goodwill resulting in the recognition of intangible assets of PLN 1,079 thousand which reduced the initially recognised goodwill (Note 14).

The goodwill was tested for impairment. The test did not indicate the need to recognise an impairment loss.

Tests for impairment of cash-generating units which include goodwill

For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest units (not larger than the Group's operating segments described in Note 7) 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 both Espand and CBI was the credit management business (debt collection services for unrelated undertakings) as such was both companies' business profile prior to the acquisition, and this business activity is 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 forecast of cash flows related to this activity was made. Cash flows were discounted with the weighted average cost of capital, reflecting the structure and financing costs of the KRUK Group (weighted average cost of capital as at September 30th 2017: 11.6%). In order to calculate the residual value, a 3% growth rate was assumed, based on the projected long-term growth on the market in question.

For CBI and Espand, the decrease in indirect margins by 37% and 8% respectively will result in the need to recognise an impairment loss on goodwill .

16. INVESTMENTS

PLN '000	**Dec 31 2017**	**Dec 31 2016**
INVESTMENTS		
Financial assets at fair value through profit or loss	518,963	603,658
Financial assets measured at amortised cost	2,601,599	2,037,288
Investment property	23,869	6,780
Loans advanced	24,872	28,476
	3,169,303	2,676,202

Debt portfolios

Financial assets at fair value through profit or loss (designated as such at the time of initial recognition) include debt portfolios purchased prior to January 1st 2014.
As of January 1st 2014, all purchased debt portfolios are classified as loans and receivables to better reflect the portfolio management strategy focused on maximising recoveries. Portfolios measured at amortised cost are classified as loans and receivables.
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:

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Purchased debt portfolios		
Unsecured portfolios	2,412,081	2,118,344
Secured portfolios	708,481	522,602
	3,120,562	2,640,946

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

	Dec 31 2017	**Dec 31 2016**
Discount rate		
- risk-free*	0.012% - 3.54%	-0.1%-2.15%
- risk premium**	5.32% - 321.14%	7.05% - 321.14%
Period for which cash flows have been estimated	Jan 2016–Dec 2033	Jan 2017–Dec 2032
Nominal value of expected future cash flows	5,704,063	5,037,123

** Varies by market.*
*** Applicable to 99% of debt portfolios.*

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

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Period		
Less than 12 months	1,309,988	1,143,817
From 1 to 2 years	1,262,448	1,047,675
From 2 to 3 years	982,557	947,712
From 3 to 4 years	691,267	610,775
From 4 to 5 years	450,428	407,244
Over 5 years	1,007,376	879,901
	5,704,063	5,037,123

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 fair value:
- risk-free rate - an increase in the risk-free rate entails a drop in fair value;
- risk premium,
- the period for which cash flows are estimated − an extension of this period, with the amount of recoveries unchanged, reduces the fair value of debt portfolios;
- the value of expected future cash flows estimated using the current data and debt collection tools.

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 using the current data and debt collection tools.

Sensitivity analysis – risk-free rate (portfolios measured at fair value)

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 2017				
Investments in debt portfolios	(5,628)	5,764	-	-
Dec 31 2016				
Investments in debt portfolios	(5,896)	6,054		

Sensitivity analysis – forecast revision (portfolios measured at fair value and at amortised cost)

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	increase in re-coveries by 100 bps	**decrease in re-coveries by 100 bps**	**increase in re-coveries by 100 bps**	**decrease in re-coveries by 100 bps**
Dec 31 2017				
Investments in debt portfolios	31,094	(31,094)	-	-
Dec 31 2016				
Investments in debt portfolios	26,410	(26,410)	-	-

Sensitivity analysis – time horizon (portfolios measured at fair value and at amortised cost)

Analysis presented below assumes extended forecast of time as well as increased forecast of payments.

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 2017				
Investments in debt portfolios	5,247	(10,320)	-	-
Dec 31 2016				
Investments in debt portfolios	3,231	(7,212)	-	-

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

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

PLN '000	
Value of purchased debt portfolios as at Jan 1 2016	**1,598,132**
Purchase of debt portfolios	1,285,899
Purchase price adjustment for discount	(1,209)
Cash recoveries	(992,406)
Value of foreclosed property	(6,551)
Increase/(decrease) in liabilities to debtors due to overpayments	1,024
Valuation of loyalty scheme	5,173
Revenue from debt purchase (interest and revaluation)	724,931
Translation differences on debt portfolios	25,953
Value of purchased debt portfolios as at Dec 31 2016	**2,640,946**
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 Jan 1 2016	**3,120,562**

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 Malta Ltd. of Malta ("ICM"), entered into an agreement with International Finance Corporation ("IFC") (an entity related to the World Bank) concerning joint purchase of debt portfolios in the Romanian market and outsourcing of their management to a jointly selected entity in accordance with a debt portfolio management strategy approved by both parties. The agreement is effective until August 3rd 2022, but may be extended 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 inflows from the purchased debt portfolios;
- Under the executed agreement, the parties to the joint operation do not have the right to net assets but to assignment of the claims incorporated in the purchased debt portfolio for the purpose of satisfaction of any amounts that remain unpaid under the bonds after expiry of the agreement term.

As at December 31st 2017, the value of the KRUK Group's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 134,852 thousand, while revenue shown in the statement of profit or loss was PLN 52,849 thousand (Note 2.4).

Loans advanced

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

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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:

	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
Property, plant and equipment	1,677	2,206	(1,793)	(2,598)	(116)	(392)
Intangible assets	-	-	(2,395)	(2,033)	(2,395)	(2,033)
Trade and other receivables	1,183	96	(11,522)	(2,747)	(10,338)	(2,651)
Liabilities under borrowings and other debt instruments	2,005	1,428	-	-	2,005	1,428
Employee benefit obligations	890	2,692	-	-	890	2,692
Provisions and liabilities	1,211	697	-	(227)	1,211	470
Investments in debt portfolios	-	-	(4,322)	(3,571)	(4,322)	(3,571)
Hedging derivatives	-	-	(1,380)	-	(1,380)	-
Deferred tax assets/liabilities	6,967	7,119	(21,411)	(11,176)	(14,444)	(4,057)
Deferred tax assets offset against liabilities	(6,967)	(7,119)	6,967	7,119	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(14,444)	(4,057)	(14,444)	(4,057)

Change in temporary differences in the period

In accordance with IAS 12.39, the Group does not recognise a deferred tax liability in respect of retained earnings at its subsidiaries as it is able to control the timing of the reversal of temporary differences in the foreseeable future.

PLN '000

	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016	As at Jan 1 2017	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2017
Property, plant and equipment	(389)	(3)	(392)	(392)	276	(116)
Intangible assets	(1,742)	(291)	(2,033)	(2,033)	(362)	(2,395)
Trade and other receivables	(1,046)	(1,605)	(2,651)	(2,651)	(7,687)	(10,338)
Loans advanced	2,578	(2,578)	-	-	-	-
Liabilities under borrowings and other debt instruments	-	-	1,428	1,428	577	2,005
Employee benefit obligations	3,194	(502)	2,692	2,692	(1,802)	890
Provisions and liabilities	247	223	470	470	741	1,211
Other	-	(3,571)	(3,571)	(3,571)	(751)	(4,322)
	2,841	(7,001)	(4,057)	(4,057)	(9,007)	(13,064)

PLN '000

	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016	As at Jan 1 2017	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2017
Hedging derivatives	-	-	-	-	(1,380)	(1,380)
	-	-	-	-	(1,380)	(1,380)

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 2017**	**Dec 31 2016**
Tax loss for 2011	Dec 31 2016	-	93
Tax loss for 2012	Dec 31 2017	-	361
Tax loss for 2013	Dec 31 2018	516	1,032
Tax loss for 2014	Dec 31 2019	1,277	1,277
Tax loss for 2015	Dec 31 2020	698	698
Tax loss for 2016	Dec 31 2021	265	265
Tax loss for 2017	Dec 31 2022	18	-
		2,774	3,726
Applicable tax rate		19%	19%
Potential benefit of tax losses		527	708

Deferred tax assets of PLN 527 thousand (2016: PLN 708 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. In 2017, KRUK Česká a Slovenská republika s.r.o. incurred a tax loss of PLN 0 thousand (December 31st 2016: PLN 3,849 thousand).

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2017**	**Dec 31 2016**
Tax loss for 2012	Dec 31 2017	-	203
Tax loss for 2013	Dec 31 2018	4,197	8,394
Tax loss for 2016	Dec 31 2021	3,849	3,849
		8,046	12,446
Applicable tax rate		19%	19%
Potential benefit of tax losses		1,529	2,365

Deferred tax assets of PLN 2,056 thousand (2016: PLN 3,073 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

18. Inventories

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Materials	384	484
Prepaid deliveries	109	1
	494	485

In the reporting period ended December 31st 2017, the Group did not recognise any write-downs on inventories.

19. Trade and other receivables

Trade receivables

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Trade receivables	16,623	13,452
	16,623	13,452
Long-term	-	-
Short-term	16,623	13,452
	16,623	13,452

Other receivables

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Taxes receivable (other than income tax)	10,110	9,999
Receivables for court fees and stamp duty	18,136	8,084
Receivables under security deposits and bid bonds	8,667	6,425
Receivables from amounts recovered	13,288	-
Other receivables	14,042	3,637
	64,244	28,145

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 29.

20. Cash and cash equivalents

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Cash in hand	71	75
Cash in current accounts	173,213	267,309
	173,284	267,384

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

21. Other assets

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Expenses relating to future reporting periods	15,070	2,507
Development expense	919	729
Liability and all-loss insurance expense	33	110
Other	2,020	2,313
	18,042	5,659

22. Equity

Share capital

	2017	**2016**
'000		
Number of shares as at Jan 1	18,744	17,398
Issue of shares	64	1,346
Number of fully-paid shares at end of period	18,808	18,744
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at Jan 1	18,744	17,398
Par value as at Dec 31	18,808	18,744

Parent's shareholding structure as at December 31st 2017

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,963,407	1,963	10.44%
NN PTE (*)	2,100,000	2,100	11.17%
Aviva OFE	1,149,000	1,149	6.11%
Other members of the Management Board	220,942	221	1.17%
Other shareholders	13,374,551	13,375	71.11%
	18,807,900	18,808	100.00%

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

All shares are ordinary shares.

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 management stock option plan for 2015–2019 was approved by way of Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the 2015−2019 Plan).

The 2015–2019 Plan is the second management stock option plan operated by the KRUK Group. Details of the previous 2011−2014 management stock option 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 the Parent and the other Group companies. Under the Plan, 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 of 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 eligible persons no later than on December 31st 2021.
Management stock options will be issued in five tranches, one for each year of the reference period, i.e. for the financial years 2015–2019.
Management stock options for a given financial year will be offered to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an average annual basis, by 13% or more relative to the base year.

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

Tranche 1

On June 9th 2016, the Supervisory Board passed a resolution confirming that the condition set forth in the Management Stock Option Plan for offering management stock options under Tranche 1 for 2015 had been met. As a result, 86,435 management stock options were delivered on July 1st 2016 to eligible persons who were not Management Board members. On October 27th 2016, 20,000 management stock options were delivered to eligible persons who were Management Board members.

Tranche 2

By way of the resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Management Stock Option Plan for offering management stock options under Tranche 2 for 2016 had been met. As a result, 91,467 management stock options were delivered on July 7th 2017 to eligible persons who were not Management Board members.

On August 22nd 2017, 50,480 management stock options 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.

number of options	**Dec 31 2017**
Number of options priced under the 2015−2019 Plan as at the beginning of the reporting period*:	731,162
Number of options priced under the 2015−2019 Plan during the reporting period*:	53,067
Number of options priced under the 2015−2019 Plan as at the end of the reporting period*:	784,229
Number of options forfeited under the 2015−2019 Plan during the reporting period**:	9,251
Number of options exercised under the 2015−2019 Plan during the reporting period:	63,684
Number of options exercisable under the 2015−2019 Plan as at the end of the reporting period:	42,751
Issue price of options in the 2015-2019 Plan	**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 Stock Option Plan.*

Exchange differences on translating subordinates

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

23. Earnings per share

Basic earnings per share

As at December 31st 2017, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 295,095 thousand (2016: PLN 248,663 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,748 thousand (2016: 17,657 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Net profit for period	295,198	248,677
Non-controlling interests	(103)	(14)
Net profit attributable to ordinary shareholders of the Parent	295,095	248,663

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Number of ordinary shares as at Jan 1	*22*	18,744	17,398
Effect of cancellation and issue		4	259
Weighted average number of ordinary shares in period ended Dec 31		18,748	17,657
PLN			
Earnings per share		15.74	14.08

Dividend per share paid

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Dividend paid from profit and retained earnings	37,488	35,491
PLN		
Dividend per share	2.00	2.00

General Meeting

On May 15th 2017, the Annual General Meeting of KRUK S.A. was held, with the agenda including, apart from approving the annual reports of the Company and the Group and granting discharge to their Management and Supervisory Boards, also the adoption of resolutions on the distribution of KRUK S.A.'s net profit for 2016.
The Annual General Meeting decided to allocate the Company's total net profit for 2016 for dividend payments and pay dividend from retained earnings of PLN 2.00 per share.
Under the resolution, the dividend record date for payment of dividends for the financial year ended December 31st 2016 was set for June 29th 2017. The dividend payment date was set for July 5th 2017. The dividend was paid on 18,744,216 KRUK S.A. shares.

Diluted earnings per share

As at December 31st 2017, diluted earnings per share were calculated based on net profit attributable to ordinary shareholders of the Parent of PLN 295,097 thousand and the diluted weighted average number of shares in the period covered by the financial statements of 19,205 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	***Note***	**Dec 31 2017**	**Dec 31 2016**
Weighted average number of ordinary shares in period ended Dec 31	*23*	18,748	17,657
Effect of issue of unregistered shares not subscribed for		527	698
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		19,275	18,355
PLN			
Earnings per share (diluted)		15.31	13.55

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 2017	Dec 31 2016
Non-current liabilities		
Secured borrowings	354,962	143,246
Liabilities under debt securities (unsecured)	1,276,772	1,227,027
Finance lease liabilities	4,962	6,812
	1,636,696	1,377,085
Current liabilities		
Short-term portion of secured borrowings	134,918	124,105
Liabilities under debt securities (unsecured)	121,491	138,074
Short-term portion of finance lease liabilities	4,117	7,147
	260,527	269,326

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 on bank accounts into which portfolio recoveries are directly or indirectly paid,
c) pledge on 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 May 31st 2017, the value of security listed in a), b) and c) above totalled approximately PLN 414m.
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 2017	Dec 31 2016
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.0 pp; 1M EURIBOR + margin of 2.2–2.4 pp	2030	489,880	267,351
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–4.5 pp	2022	1,398,263	1,365,101
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.39–3.58 pp	2020	9,079	13,959
				1,897,223	1,646,411

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at Dec 31 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
As at Dec 31 2016			
up to 1 year	7,323	176	7,147
from 1 to 5 years	7,028	216	6,812
	14,351	392	13,959

Security over assets

Security over assets *PLN '000*	Dec 31 2017	Dec 31 2016
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	1,125,665	627,439
Property, plant and equipment under finance leases	9,079	13,959
	1,134,744	641,398

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

25. Hedge 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:

a) The Group's objectives in terms of interest rate risk;
b) Interest rate risk monitoring methods;
c) The Group's permitted exposure to interest rate risk;
d) Procedures in case of exceeding permitted exposure to interest rate risk;
e) Rules of interest rate risk management at the KRUK Group.

In 2017, the Company entered into two cross currency interest rate swap contracts ("CIRS") in which the Company pays a coupon at fixed rate EUR and receives a coupon at floating rate PLN. The contracts hedge both the currency and the interest rate risk as they effectively replace the Company's debt contracted in the złoty with EUR-denominated liabilities:

1st contract: Company pays at a fixed rate of 3.06%, while Counterparty pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).
2nd contract: Company pays at a fixed rate of 2.97%, while Counterparty pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates and cash flows denominated in a convertible currency due to exchange rate fluctuations.

The Company expects cash flows and their impact on the financial results until 2021.

In 2017, the Company entered into two interest rate swap contracts ("IRS") in which the Company pays a coupon at fixed rate PLN and receives a coupon at floating rate PLN. The contracts hedge interest rate risk.

1st contract: Company pays at a fixed rate of 2.5%, while Counterparty pays at a floating rate equal to 3M WIBOR. Interest payments are made every three months (interest period). The contract was concluded for a period of four years.

2nd contract: Company pays at a fixed rate of 2.5%, while Counterparty pays at a floating rate equal to 3M WIBOR.Interest payments are made every three months (interest period).

The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates.

The Company expects cash flows and their impact on the financial results until 2022.

In 2016, the Company carried no derivative instruments.

PLN '000

	Carrying amount/fair value of derivative instruments hedging cash flows associated with interest rate and/or foreign exchange rate			
	Dec 31 2017		Dec 31 2016	
	Assets	Liabilities	Assets	Liabilities
Instrument type:				
CIRS	8,637	-	-	-
IRS	-	1,375	-	-
	8,637	1,375	-	-

	Nominal value as at Dec 31 2017				
	Below 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
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	-

In 2016, the KRUK Group carried no derivative instruments.

Other comprehensive income from cash flow hedges	**01.01.2017 - Dec 31 2017**	**01.01.2016 - Dec 31 2016**
Other comprehensive income at beginning of period, before tax	-	-
Gains/(losses) recognised in other comprehensive income during period	10,298	-
Amount reclassified from other comprehensive income to profit or loss during period	3,036	-
Accumulated other comprehensive income at end of period, before tax	7,262	-
Tax effect	(1,380)	-
Accumulated other comprehensive income at end of period, net of tax	5,882	-
Ineffective portion of cash flow hedges recognised in profit or loss	-	-
Effect on other comprehensive income (before tax) during period	7,262	-
Deferred tax on cash flow hedges	(1,380)	-
Effect on other comprehensive income during period, net of tax	5,882	-

26. Employee benefit obligations

PLN '000	Dec 31 2017	Dec 31 2016
Salaries and wages payable	14,129	12,642
Liabilities to the Social Security Institution	6,029	5,336
Personal income tax	1,831	3,437
Accrued holiday entitlements	6,331	4,394
Provisions for salaries and wages (bonuses)	206	8,408
Provisions for retirement severance payments	124	124
Special accounts	64	55
	28,715	34,396

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2016	4,050
Increase	3,842
Use	(3,498)
Value as at Dec 31 2016	4,394
Value as at Jan 1 2017	4,394
Increase	5,853
Use	(3,916)
Value as at Dec 31 2017	6,331
Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2016	9,086
Increase	7,887
Use	(5,104)
Release	(3,461)
Value as at Dec 31 2016	8,408
Value as at Jan 1 2017	8,408
Increase	206
Use	(8,408)
Release	-
Value as at Dec 31 2017	206

27. Provisions

PLN '000	**Other provisions**
Value as at Jan 1 2016	264
Release	(264)
Value as at Dec 31 2016	-
Value as at Jan 1 2017	-
Release	-
Value as at Dec 31 2017	-

28. Trade and other payables

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Trade payables	81,122	79,958
Tax and duties payable	23,080	49,301
Other liabilities	18,295	27,189
Accrued expenses	13,694	3,469
Deferred income	7,258	6,130
	143,449	166,047

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

29. 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.

29.1. 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 advanced by the Group, receivables for the services provided by the Group and purchased debt portfolios.

Loans advanced

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 advanced 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 advanced 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 advanced. 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 advanced, 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 advanced 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 advanced 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
- e-mails 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 2.3% of the Group's total revenue (2016: 0.45%). Receivables from the Group's largest trading partner represented 2.3% of total trade receivables, VAT inclusive, as at December 31st 2017 (December 31st 2016: 2.23%). Therefore, there is no significant concentration of credit risk at the Group.
The Group recognises impairment losses which represent its estimates of incurred losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

Purchased debt portfolios

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

As at each valuation date, the Group estimates credit risk based on past inflows 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.

Proceeds 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 forecast.
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 this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on the Group's liquidity, but no assurance can be given that such a situation will not occur in the future.
Debt collection tools used include:

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

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 2017	Dec 31 2016
Financial instruments at fair value through profit or loss	*16*	518,963	603,658
Financial assets measured at amortised cost	*16*	2,601,599	2,037,288
Loans	*16*	24,872	28,476
Receivables	*19*	80,867	41,597
		3,226,301	2,711,019

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

PLN '000

	Dec 31 2017	Dec 31 2016
Poland	1,463,326	1,363,792
Romania	864,575	765,021
Czech Republic	119,043	113,920
Italy	540,291	343,164

Other foreign markets	239,066	125,122
	3,226,301	2,711,019

Impairment losses

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

PLN '000	**Gross value Dec 31 2017**	**Impairment loss Dec 31 2017**	**Gross value Dec 31 2016**	**Impairment loss Dec 31 2016**
Not due	74,106	-	35,690	-
Past due, 0-30 days	3,130	-	2,061	-
Past due, 31-90 days	3,321	-	862	-
Past due, 91-180 days	24	-	-	-
Past due, 181-365 days	450	164	1,208	178
Past due, over one year	545	545	1,688	617
	81,576	709	42,392	795

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Impairment loss as at Jan 1	795	1,188
Impairment loss recognised in period	164	475
Reversal of impairment loss	(250)	(862)
Use of impairment loss	-	(6)
Impairment loss as at Dec 31	709	795

Below are presented changes in impairment losses on loans advanced:

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Impairment loss as at Jan 1	11,189	2,237
Impairment loss recognised in period	1,213	8,952
Reversal of impairment loss	-	-
Impairment loss as at Dec 31	12,402	11,189

As at December 31st 2017, the gross value of loans advanced to individuals was PLN 37,274 thousand (December 31st 2016: PLN 39,665 thousand). The Group recognised an impairment loss on loans of PLN 12,402 thousand as at December 31st 2017 (2016: PLN 11,189 thousand). The amount of impairment losses is determined for the entire portfolio based on estimated recoverability of advanced loans, which is established principally on the basis of loan delinquency periods (0-30 DPD; 31-60 DPD; 61<=DPD; terminated loans). The value of the impairment loss covers 33.2% of the gross of loans advanced.

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

29.2. Liquidity risk

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

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

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

Exposure to liquidity risk

Below are presented the contractual terms of financial liabilities:

As at December 31st 2017
PLN '000

	Carrying amount	Contractual cash flows	Below 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 advanced	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	431,954	523,685	1,034,500	440,520	1,007,376

As at December 31st 2016
PLN '000

	Carrying amount	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	Over 5 years	
Non-derivative financial assets and liabilities								
Investments in debt portfolios	2,640,946	5,037,123	563,555	580,262	1,047,675	1,965,730	879,901	
Loans advanced	28,476	37,616	17,195	11,587	8,709	126	-	
Secured borrowings	(267,351)	(281,436)	(12,507)	(10,386)	(20,299)	(238,138)	(106)	-
Unsecured bonds in issue	(1,365,101)	(1,630,185)	(151,457)	(46,685)	(174,803)	(967,363)	(289,876)	-
Finance lease liabilities	(13,959)	(14,321)	(3,953)	(3,252)	(4,610)	(2,506)	-	-
Trade and other payables	(169,248)	(169,248)	(169,248)	-	-	-	-	-
	853,763	2,979,549	243,584	531,525	856,672	757,849	589,919	-

Contractual cash flows were determined based on interest rates effective as at December 31st 2016 and December 31st 2017, respectively.

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

As at December 31st 2017, the undrawn revolving credit facility limit available to the Group was PLN 1,198,003 thousand (2016: PLN 415,024 thousand). The limit is available until December 31st 2021.

29.3. Market risk

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

In the Management Board's opinion, for the Group the market risk relates primarily to exposure to the risk of changes in the PLN/RON, PLN/CZK and PLN/EUR exchange rates given the Group's considerable investments in debt portfolios denominated in RON, CZK, and EUR. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. As at December 31st 2017, assets denominated in foreign currencies accounted for 52% of total assets, while liabilities denominated in foreign currencies represented 14% of total equity and liabilities (December 31st 2016: 43.67% and 6.52%, respectively). The Group uses financial instruments to hedge its interest rate risk and currency risk (see Note 3.3.3).
As of January 1st 2017, Invest Capital Malta Ltd. changed its functional currency from PLN to EUR. The change followed from an assessment of the currency of the primary economic environment in which the subsidiary operates (functional currency). In the assessment, the InvestCapital Management Board followed its own judgement in order to establish a functional currency that reflects the growing share of investment and financing denominated in the euro.

PLN '000	**Dec 31 2017**					**Dec 31 2016**					**Dec 31 2017**					**Dec 31 2016**				
	Exposure to currency risk										**Exposure to currency risk if the exchange rate increases by +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	63	44,837	3	-	**44,907**	-	-	-	-	-	6	4,484	0	-	**4,490**	-	-	-	-	**-**
Financial assets	-	60,135	617,698	15,067	**692,900**		4,874	17,285	2,619	**24,778**	-	6,014	61,770	1,507	**69,290**	-	487	1,729	262	**2,478**
Cash	3,207	4,691	19,214	2,177	**29,290**	-	-	-	-	-	321	469	1,921	218	**2,929**	-	-	-	-	**-**
Liabilities under borrowings and other debt instruments	-	(436,632)	-	-	**(436,632)**	-	(201,470)	-	-	**(201,470)**	-	(43,663)	-	-	**(43,663)**	-	(20,147)	-	-	**(20,147)**
Trade and other payables	(44)	(740)	(27,195)	(653)	**(28,632)**	-	-	-	-	-	(4)	(74)	(2,719)	(65)	**(2,863)**	-	-	-	-	**-**
Effect on profit/loss for period	3,226	(327,708)	609,721	16,590	**301,832**	-	(196,596)	17,285	2,619	**(176,692)**	323	(32,771)	60,972	1,659	**30,183**	-	(19,660)	1,729	262	**(17,669)**
Effect on other comprehensive income																				
Receivables	-	15,541	9,018	(214)	24,345	-	-	-	-	**-**	-	1,554	902	(21)	**2,434**	-	-	-	-	**-**
Financial assets	-	745,059	222,760	1,253	969,071	-	529,687	-	-	**529,687**	-	74,506	22,276	125	**96,907**	-	52,969	-	-	**52,969**
Cash	-	34,246	39,047	1,478	74,771	-	-	-	-	**-**	-	3,425	3,905	148	**7,477**	-	-	-	-	**-**
Liabilities under borrowings and other debt instruments	-	-	-	-	-	-	(223)	-	(5)	**(228)**	-	-	-	-	**-**	-	(22)	-	(1)	**(23)**

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Trade and other payables	-	(22,707)	(24,416)	(565)	(47,687)	-	-	-	-	**-**	-	(2,271)	(2,442)	(56)	**(4,769)**	-	-	-	-	**-**
Effect on other comprehensive income	-	772,139	246,409	1,952	**1,020,500**	-	529,464	-	(5)	**529,459**	-	77,214	24,641	195	**102,050**	-	52,946	-	(1)	**52,946**
										-										
Exposure to currency risk	3,226	444,431	856,130	18,542	**1,322,332**	-	332,868	17,285	2,614	**352,767**	323	44,443	85,613	1,854	132,233	-	33,287	1,729	261	**35,277**
Risk mitigation effect	-	(190,000)	-	-	**(190,000)**	-	-	-	-	**-**	-	(19,000)	-	-	(19,000)	-	-	-	-	**-**
Exposure to currency risk after hedging	3,226	254,431	856,130	18,542	**1,132,332**	-	332,868	17,285	2,614	**352,767**	323	25,443	85,613	1,854	113,233	-	33,287	1,729	261	**35,277**

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:

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

As at December 31st 2017, a 10% appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an increase (decrease) of equity and profit before tax by the amounts shown 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 – Dec 31 2017	**Jan 1 – Dec 31 2016**	**Dec 31 2017**	**Dec 31 2016**
1 EUR	4.2447	4.3757	4.1709	4.4240
1 USD	3.7439	3.9680	3.4813	4.1793
1 RON	0.9282	0.9739	0.8953	0.9749
1 CZK	0.1614	0.1618	0.1632	0.1637
100 HUF	1.3723	1.4034	1.3449	1.4224

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 2017	**Dec 31 2016**
Fixed-rate financial instruments		
Financial assets	2,707,338	2,108,348
Financial liabilities	(415,336)	(268,574)
	2,292,002	1,839,774
Risk mitigation effect	(390,000)	-
	1,902,004	1,839,774
Floating-rate financial instruments		
Financial assets	518,963	603,658
Financial liabilities	(1,625,336)	(1,546,726)
	(1,106,373)	(943,068)
Risk mitigation effect	390,000	-
	(716,373)	(943,068)

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 2017				
Variable rate financial assets	(5,628)	5,764		
Variable rate financial liabilities	(22,177)	22,177	-	-
Dec 31 2016				
Variable rate financial assets	(5,896)	6,054		
Variable rate financial liabilities	(54,771)	54,771	-	-

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 2017**		**Dec 31 2016**	
	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	603,658	603,658
Hedge derivatives	7,262	7,262	-	-
	526,225	526,225	603,658	603,658
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	2,601,599	2,460,200	2,037,288	1,967,113
Loans and receivables	105,739	105,739	70,073	70,073
Secured bank borrowings	(489,880)	(489,880)	(267,351)	(267,351)
Unsecured bonds in issue	(1,398,263)	(1,374,306)	(1,365,101)	(1,366,204)
Finance lease liabilities	(9,079)	(9,079)	(13,959)	(13,959)
Trade and other payables	(143,449)	(143,449)	(169,248)	(169,248)
	666,666	549,225	298,482	227,204

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

Interest rates used for fair value estimation

	Dec 31 2017	Dec 31 2016
Financial assets measured at fair value and at amortised cost	5.32% - 321.14%	5.77% - 146.99%
Borrowings	1.83%-3.65%	1.83%-2.66%
Unsecured bonds in issue	4.23%-6.33%	4.23%-6.33%
Finance lease liabilities	1.39%-3.58%	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 2014−2017, no transfers were made between the levels.

PLN '000	Level 3	
	Carrying amount	**Fair value**
As at Dec 31 2016		
Financial assets at fair value through profit or loss	603,658	603,658
Financial assets measured at amortised cost	2,037,288	1,967,113
As at Dec 31 2017		
Financial assets at fair value through profit or loss	518,963	518,963
Financial assets measured at amortised cost	2,601,599	2,460,200

PLN '000	Level 2	
	Carrying amount	**Fair value**
As at Dec 31 2016		
Hedge derivatives	-	-
As at Dec 31 2017		
Hedge derivatives	7,262	7,262

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.

29.4. 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 2017 to December 31st 2017, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 26.43% (2016: 25.15%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and finance leases to total equity, was 1.3 as at December 31st 2017 (December 31st 2016: 1.33).

In the reporting period from January 1st to December 31st 2017, there were no changes in the Group's approach to capital management.

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30. Operating lease

Operating lease agreements with the Group as a lessee

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

w tysiącach złotych	**31.12.2017**	**31.12.2016**
do roku	6 061	6 155
1 do 5 lat	19 181	16 225
	25 242	22 380

- 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.

31. 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 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Base pay/ managerial contract (gross)	5,559	2,175
Provision for employee bonuses for current year	206	1,265
Share based payments	4,119	7,702
	9,884	11,142

Other transactions with management personnel

As at December 31st 2017, 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 2016: 12.19%).

32. Share-based payments

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

PLN '000

Period ending	**Value of benefits granted**
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
Total	46,805

Details regarding the stock option plan were described in Note 22.

33. Auditor's fees

Auditor's fees

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Mandatory audit of full-year financial statements	1,053	1,085
Assurance services and review of half-year financial statements	408	25
	1,461	1,110

34. Contingent liabilities

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards BZ WBK S.A. under the credit facility granted to PROKURA NS FIZ	Bank Zachodni WBK 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 150m	Until July 1st 2025	PROKURA NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

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Blank promissory note	Bank Zachodni WBK 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.
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
Surety for InvestCapital LTD's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017 executed between KRUK S.A., InvestCapital LTD (the Borrower), and DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A.	EUR 375m	Until all obligations under the credit facility agreement are discharged.	InvestCapital LTD's failure to pay amounts due under the credit facility agreement
Guarantee issued by BZ WBK S.A. for KRUK S.A.'s liabilities under the Rental Agreement	DEVCo Sp. z o.o.	EUR 0.279m and PLN 0.186m	Until December 30th 2018	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the Guarantee

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.

35. Events subsequent to the reporting date

On March 6th 2018, the Parent's Management Board passed a resolution to recommend to the Annual General Meeting of KRUK S.A. distribution of dividend of PLN 5 per share. The payment will be made from the Parent's net profit for 2017, increased by an amount transferred from statutory reserve funds created out of retained earnings. The recommendation on dividend payment and amount was made taking into account the KRUK Group's current financial condition as well as its further growth strategy, plans and prospects.

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 19th 2018