



Semi-annual report

Table of contents

TABLE OF CONTENTS	2
I. FINANCIAL HIGHLIGHTS	5
1. Key consolidated financial results	5
2. Separate financial highlights	6
II. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1ST–JUNE 30TH 2017	7
1. Interim condensed consolidated statement of financial position	7
2. Interim condensed consolidated statement of profit or loss	8
3. Interim condensed consolidated statement of comprehensive income.....	9
4. Interim condensed consolidated statement of changes in equity.....	10
5. Interim condensed consolidated statement of cash flows.....	12
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	13
1. Organisation of the KRUK Group	13
2. Reporting period	17
3. Statement of compliance	18
4. Significant accounting policies.....	18
5. Accounting estimates and judgements.....	21
6. Financial risk management.....	21
7. Reporting and geographical segments.....	22
8. Seasonality or cyclicity of business	26
9. Type and amount of changes in estimated amounts reported in previous financial years, with a material bearing on the current period.....	26
10. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect	29
Revenue from debt portfolios measured at fair value	30
Revaluation of debt portfolios measured at fair value.....	30

Revenue from debt portfolios measured at amortised cost.....	30
Revaluation of debt portfolios measured at amortised cost.....	31
Basic earnings per share	41
Diluted earnings per share.....	41
11. Financial instruments.....	43
Fair value.....	43
Hierarchy of financial instruments.....	43
12. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance.....	48
13. Issue, redemption and repayment of non-equity and equity securities	49
14. Dividends paid (or declared)	50
15. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance	51
16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year	51
III. INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS	53
1. Interim condensed separate statement of financial position	53
2. Interim condensed separate statement of profit or loss.....	54
3. Interim condensed separate statement of comprehensive income	55
4. Interim condensed separate statement of changes in equity	56
5. Interim condensed separate statement of cash flows	58
NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS	59
1. Company details.....	59
2. Reporting period	59
3. Statement of compliance	59
4. Significant accounting policies.....	60
5. Type and amount of changes in estimated amounts reported in previous financial years, with a material bearing on the current period.....	61

6. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect	62
---	----

INVESTMENTS IN SUBSIDIARIES..... 68

7. Fair value	72
---------------------	----

8. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance.....	74
---	----

9. Issue, redemption and repayment of non-equity and equity securities.....	74
---	----

10. Dividends paid (or declared)	75
--	----

11. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance	75
---	----

12. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year	75
--	----

IV. ACTIVITY REPORT 77

1. Effects of changes in the structure of the Group, including through business combinations, acquisitions or divestments of Group entities, long-term investments, divisions, restructurings or discontinuation of operations...	77
---	----

2. Management Board's position on the feasibility of meeting previously published forecasts for the financial year 77	
---	--

3. Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this interim report, and changes in their holdings after the issue of the previous report ...	79
---	----

4. Litigation, arbitration or administrative proceedings	83
--	----

5. Sureties for repayment of loans and guarantees issued by KRUK S.A. or its subsidiary	85
---	----

6. The Group's material achievements or failures in the reporting period, along with the most significant events related to such achievements or failures	85
---	----

7. Other information relevant to the assessment of the staffing levels, assets, financial condition and financial performance, or changes in any of the foregoing, and information relevant to the assessment of the Company's ability to meet its obligations	86
--	----

8. Factors with a potential bearing on the Group's results in the next quarter or in a longer term	87
--	----

9. Statement of the Management Board.....	87
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I. Financial highlights

1. Key consolidated financial results

Financial highlights	PLN '000		EUR '000	
	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
For the period				
Revenue	547,469	341,076	128,895	77,862
EBIT	260,180	131,660	61,256	30,056
Profit before tax	222,442	111,613	52,371	25,479
Net profit attributable to owners of the Parent	216,905	111,348	51,068	25,419
Net cash from operating activities	(174,631)	(333,273)	(41,115)	(76,081)
Purchase of debt portfolios	(505,574)	(727,457)	(119,031)	(166,066)
Cash recoveries	647,211	446,454	152,378	101,918
Net cash from investing activities	(4,806)	(5,008)	(1,132)	(1,143)
Net cash from financing activities	32,186	335,355	7,578	76,556
Change in net cash	(147,252)	(2,926)	(34,669)	(668)
Average number of shares ('000)	18,744	17,493	18,744	17,493
Earnings per share (PLN/EUR)	11.57	6.37	2.72	1.45
Diluted earnings per share (PLN/EUR)	11.31	6.14	2.66	1.40
As at	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2017 unaudited	Dec 31 2016
Total assets	3,284,031	3,095,697	777,010	699,751
Non-current liabilities	1,594,510	1,381,142	377,265	312,193
Current liabilities	307,857	477,049	72,840	107,832
Equity	1,380,688	1,237,504	326,674	279,725
Share capital	18,744	18,744	4,435	4,237
Book value per ordinary share (PLN/EUR)	73.66	66.02	17.43	14.92

The financial highlights have been translated into the euro as follows:

items of or related to the statement of profit or loss and the statement of cash flows have been translated using the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period; the exchange rates thus calculated are:

for the current period **4.2474**
for the comparative period **4.3805**

items of or related to the statement of financial position have been translated using the mid rate quoted by the National Bank of Poland for the end of the reporting period; the exchange rates thus calculated are:

for the current period **4.2265**
for the comparative period **4.4240**

2. Separate financial highlights

Financial highlights	PLN '000		EUR '000	
	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
For the period				
Revenue	64,605	58,527	15,210	13,361
Operating loss	(35,168)	(23,998)	(8,280)	(5,478)
Loss before tax	(18,591)	(68,608)	(4,377)	(15,662)
Net loss	(19,565)	(68,416)	(4,606)	(15,618)
Net cash from operating activities	(17,099)	(35,639)	(4,026)	(8,136)
Net cash from investing activities	(159,009)	(244,942)	(37,437)	(55,916)
Net cash from financing activities	38,833	287,425	9,143	65,615
Change in net cash	(137,276)	6,844	(32,320)	1,562
Average number of shares ('000)	18,744	17,493	18,744	17,493
Earnings per share (PLN/EUR)	(1.04)	(3.91)	(0.25)	(0.89)
Diluted earnings per share (PLN/EUR)	(1.02)	(3.77)	(0.24)	(0.86)
As at	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2017 unaudited	Dec 31 2016
Total assets	2,408,833	2,362,301	569,705	533,974
Non-current liabilities	1,550,615	1,332,117	365,467	301,112
Current liabilities	205,834	328,934	49,882	74,352
Equity	652,384	701,251	154,356	158,511
Share capital	18,744	18,744	4,435	4,237
Book value per ordinary share (PLN/EUR)	34.80	37.41	8.23	8.46

The financial highlights have been translated into the euro as follows:

items of or related to the statement of profit or loss and the statement of cash flows have been translated using the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period; the exchange rates thus calculated are:

for the current period	4.2474
for the comparative period	4.3805

items of or related to the statement of financial position have been translated using the mid rate quoted by the National Bank of Poland for the end of the reporting period; the exchange rates thus calculated are:

for the current period	4.2265
for the comparative period	4.4240

II. Interim condensed consolidated financial statements for the period January 1st–June 30th 2017

1. Interim condensed consolidated statement of financial position

As at June 30 2017

PLN '000

	Note	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Assets				
Cash and cash equivalents		120,132	267,384	137,816
Trade receivables		18,414	13,452	7,924
Investments	9	2,985,715	2,676,202	2,240,509
Hedge derivatives		5,138	-	-
Other receivables		45,203	28,145	25,345
Inventories		289	485	601
Property, plant and equipment	10.9	27,088	27,473	20,925
Other intangible assets	10.9	15,366	14,293	13,246
Goodwill		62,604	62,604	1,024
Deferred tax asset		-	-	3,067
Other assets		4,082	5,658	3,264
Total assets		3,284,031	3,095,697	2,453,721
Equity and liabilities				
Liabilities				
Trade and other payables	10.12	121,562	169,248	213,259
Employee benefit obligations		30,872	34,396	27,342
Income tax payable		-	4,079	-
Liabilities under borrowings and other debt instruments	10.10	1,745,966	1,646,411	1,323,938
Deferred tax liability		4,943	4,057	-
Provisions		-	-	264
Total liabilities		1,903,343	1,858,191	1,564,803
Equity				
Share capital		18,744	18,744	17,744
Share premium		288,326	288,326	77,766
Cash flow hedging reserve		4,162	-	-
Translation reserve		(45,074)	(592)	3,553
Other capital reserves		80,683	76,658	72,818
Retained earnings		1,033,771	854,354	717,040
Equity attributable to owners of the Parent		1,380,612	1,237,490	888,921
Non-controlling interests		76	14	(3)
Total equity		1,380,688	1,237,504	888,918
Total equity and liabilities		3,284,031	3,095,697	2,453,721

2. Interim condensed consolidated statement of profit or loss

For the reporting period January 1st–June 30th 2017

PLN '000

		<i>Note</i>			
		Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Apr 1–Jun 30 2016 unaudited
Revenue	10.1	547,469	283,341	341,076	180,401
Other income	10.2	2,587	1,265	1,660	1,006
Employee benefits expense	10.3	(118,001)	(63,131)	(86,827)	(44,744)
Depreciation and amortisation expense		(8,166)	(4,175)	(6,099)	(2,856)
Contracted services		(60,623)	(34,471)	(32,835)	(17,349)
Other expenses	10.4	(103,086)	(53,773)	(85,315)	(55,043)
		(289,876)	(155,550)	(211,076)	(119,992)
EBIT		260,180	129,056	131,660	61,415
Finance income	10.5	966	-	6,160	4,070
Finance costs	10.6	(38,704)	(23,540)	(26,207)	(13,961)
Net finance costs		(37,738)	(23,540)	(20,047)	(9,891)
Profit before tax		222,442	105,516	111,613	51,524
Income tax	10.7	(5,462)	(4,029)	(271)	(1,075)
Net profit for period		216,980	101,487	111,342	50,449
Net profit attributable to:					
Owners of the Parent		216,905	101,443	111,348	50,438
Non-controlling interests		75	44	(6)	11
Net profit for period		216,980	101,487	111,342	50,449
Earnings per share					
Basic (PLN)	10.11	11.57	5.41	6.37	2.88
Diluted (PLN)	10.11	11.31	5.29	6.14	2.78

3. Interim condensed consolidated statement of comprehensive income

For the reporting period January 1st–June 30th 2017

PLN '000

		Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Apr 1–Jun 30 2016 unaudited
Net profit for period		216,980	101,487	111,342	50,449
Other comprehensive income					
Items that may be reclassified to profit or loss					
Translation reserve	10.8	(44,482)	(619)	11,228	9,279
Cash flow hedges		4,162	-1,424	-	-
Other comprehensive income, net, for period		(40,320)	(2,043)	11,228	9,279
Total comprehensive income for period		176,660	99,444	122,570	59,728
Total comprehensive income attributable to:					
Owners of the Parent		176,585	99,400	122,576	59,734
Non-controlling interests		75	44	(6)	11
Total comprehensive income for period		176,660	99,444	122,570	59,745
Comprehensive income per share					
Basic (PLN)		9.42	5.30	7.01	3.41
Diluted (PLN)		9.20	5.18	6.76	3.29

4. Interim condensed consolidated statement of changes in equity

For the reporting period January 1st–June 30th 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	-	(7,675)	68,957	641,182	784,244	34	784,278
Net profit for period		-	-	-	-	-	111,348	111,348	(6)	107,668
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-		11,228	-	-	11,228	-	11,228
Other comprehensive income		-	-	-	11,228	-	-	11,228	-	11,228
Total comprehensive income for period		-	-	-	11,228	-	111,348	122,576	(6)	122,570
Contributions from and distributions to owners										
- Payment of dividends		-	-		-	-	(35,491)	(35,491)	(31)	(35,522)
- Issue of shares	10.11	346	13,384					13,730		13,730
- Share-based payments		-	-		-	3,861	-	3,861	-	3,861
Total contributions from and distributions to owners		346	13,384	-	-	3,861	(35,491)	(17,900)	(31)	(17,931)
Total equity as at Jun 30 2016		17,744	77,766	-	3,553	72,818	717,040	888,921	(3)	888,918
Equity as at Jan 1 2016		17,398	64,382	-	(7,675)	68,957	641,182	784,244	34	784,278
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
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	14	-	-	-	-	-	(35,491)	(35,491)	(34) ^{i,5}	
- Issue of shares	10.11	1,346	223,944	-	-	-	-	225,290	-	225,290
- Share-based payments		-	-	-	-	7,702	-	7,702	-	7,702
Total contributions from and distributions to owners		1,346	223,944	-	-	7,702	(35,491)	197,501	(34)	197,467

		Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners	Total contributions from and distributions to owners
Total contributions from and distributions to owners		18,744	288,326	-	(592)	76,658	854,354	1,237,490	14	1,237,504
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		-	-	-	-	-	216,905	216,905	75	216,980
Other comprehensive income		-	-	-	-	-	-	-	-	-
- Exchange differences on translating foreign operations		-	-	-	(44,482)	-	-	(44,482)	-	(44,482)
- Valuation of hedging instruments		-	-	4,162	-	-	-	4,162	-	4,162
Other comprehensive income		-	-	4,162	(44,482)	-	-	(40,320)	-	(40,320)
Translation reserve		-	-	-	-	-	-	-	-	-
Total comprehensive income for period		-	-	4,162	(44,482)	-	216,905	176,585	75	176,660
- Payment of dividends	14	-	-	-	-	-	(37,488)	(37,488)	(13)	(37,501)
- Share-based payments		-	-	-	-	4,025	-	4,025	-	4,025
Total contributions from and distributions to owners		-	-	-	-	4,025	(37,488)	(33,463)	(13)	(33,476)
Total equity as at Jun 30 2017		18,744	288,326	4,162	(45,074)	80,683	1,033,771	1,380,612	76	1,380,688

5. Interim condensed consolidated statement of cash flows

For the reporting period January 1st–June 30th 2017

PLN '000

	Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Apr 1–Jun 30 2016 unaudited
Cash flows from operating activities				
Net profit for period	216,980	101,487	111,342	50,449
<i>Adjustments</i>				
Depreciation of property, plant and equipment	4,758	1,801	2,741	542
Amortisation of intangible assets	3,410	2,376	3,359	2,314
Change in debt portfolios purchased	(352,878)	(223,098)	(608,296)	(605,936)
Change in other investments	(981)	682	(437)	(892)
Net finance costs	26,589	20,236	27,811	12,291
(Gain)/loss on sale of property, plant and equipment	(756)	(413)	(88)	(54)
Equity-settled share-based payments	4,025	2,023	3,861	1,934
Income tax	5,462	4,029	271	1,075
Change in inventories	196	34	(14)	7
Change in receivables	(22,192)	(14,460)	1,841	7,215
Change in prepayments and accrued income	1,576	696	205	592
Change in current liabilities, excluding financial liabilities	(47,688)	(14,167)	(129,702)	(172,081)
Change in employee benefit obligations	(3,524)	(6,514)	(1,897)	1,305
Income tax paid	(9,609)	(4,113)	(3,675)	(368)
Net cash from operating activities	(174,631)	(129,399)	(333,273)	(357,444)
Cash flows from investing activities				
Interest received	161	(73)	640	613
Sale of intangible assets and property, plant and equipment	1,240	1,240	224	189
Purchase of intangible assets and property, plant and equipment	(6,208)	(3,727)	(5,872)	(2,474)
Net cash from investing activities	(4,806)	(2,559)	(5,008)	(1,672)
Cash flows from financing activities				
Proceeds from issue of shares floated on stock exchange	-	-	13,730	9,070
Proceeds from bond issue	168,391	168,391	457,900	288,680
Increase in borrowings	676,086	410,741	756,227	519,397
Repayment of borrowings	(648,752)	(390,764)	(776,689)	(371,815)
Payments under finance lease agreements	(5,404)	(3,845)	(2,405)	(1,268)
Redemption of debt securities	(120,000)	(60,000)	(91,000)	(7,000)
Interest paid	(38,135)	(20,706)	(22,408)	(9,174)
Net cash from financing activities	32,186	103,817	335,355	427,890
Total net cash flows	(147,252)	(28,142)	(2,926)	68,773
Cash and cash equivalents at beginning of period	267,384	148,274	140,742	69,043
Cash and cash equivalents at end of period	120,132	120,132	137,816	137,816

Notes to the interim condensed consolidated financial statements

1. Organisation of the KRUK Group

Parent

Name:

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

Registered office:

ul. Wołowska 8

51-116 Wrocław, Poland

Registration in the National Court Register:

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

Date of entry: September 7th 2005

Entry number: KRS 0000240829

Principal business activities of the Parent and subsidiaries

The principal business activities of the Parent and most of its subsidiaries consist primarily 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.

These interim condensed consolidated financial statements for the reporting period from January 1st to June 30th 2017 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

KRUK S.A. is the Parent of the Group.

As at June 30th 2017, the Management Board of the Parent consisted of:

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.

In H1 2017 and by the issue date of this interim report, the composition of the Management Board of KRUK S.A. did not change.

In H1 2017 and by the issue date of this interim report, the composition of the Supervisory Board of KRUK S.A. did not change and was as follows:

Piotr Stępnia,	Chairman of the Supervisory Board
Katarzyna Beuch,	Member of the Supervisory Board
Tomasz Bieske,	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski,	Member of the Supervisory Board
Krzysztof Kawalec,	Member of the Supervisory Board
Robert Koński,	Member of the Supervisory Board
Józef Wancer,	Member of the Supervisory Board.

KRUK Group

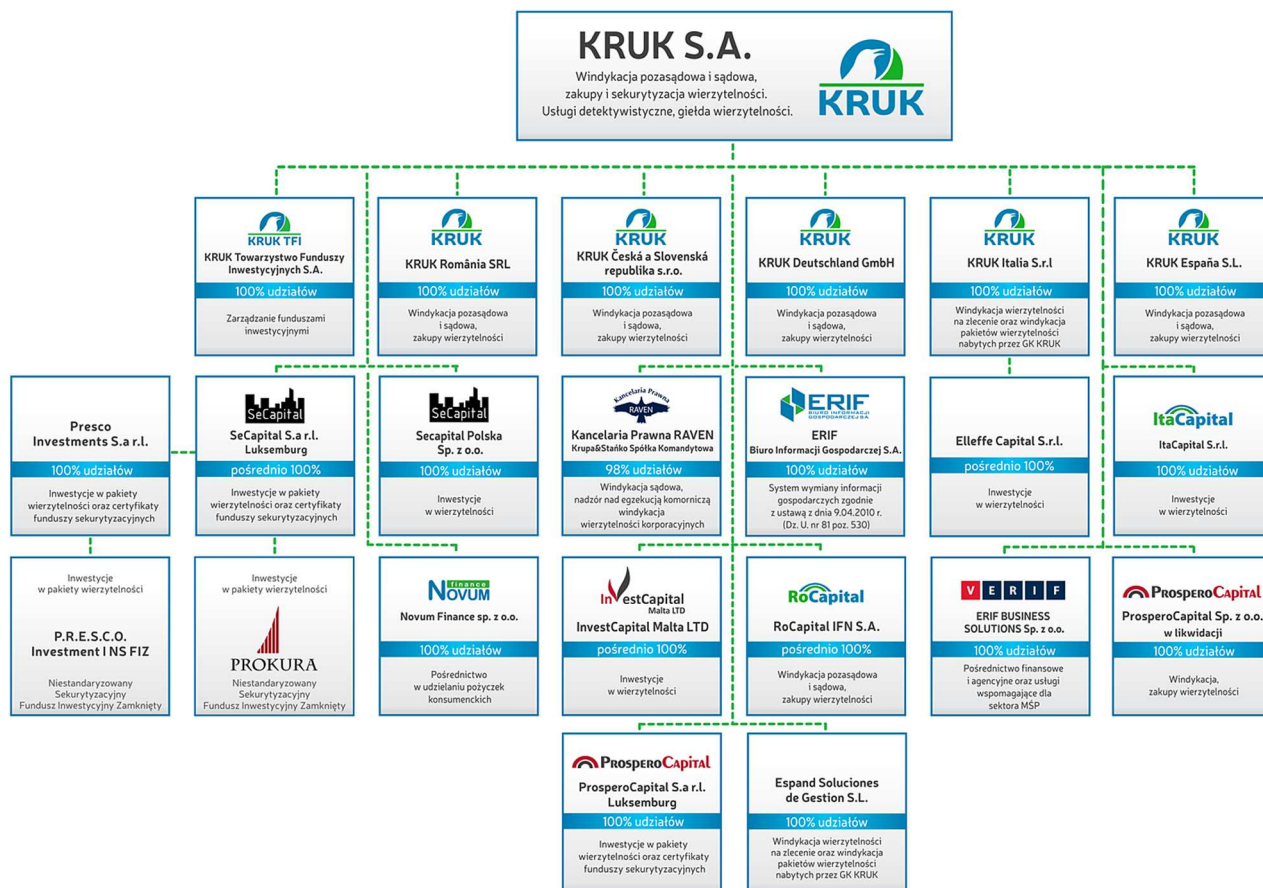
As at the issue date of this report, the Group comprised KRUK S.A. of Wrocław and 23 subsidiaries:

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK Romania S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	Wrocław	Fund which employs professional risk assessment and credit management methodologies. All certificates issued by the fund are held by Secapital S.a.r.l.
Secapital Polska sp. z o.o.	Wrocław	Management of securitised debt
ERIF Business Solutions sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
KRUK Česká a Slovenská republika s.r.o.	Hradec Králové	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of the Prokura NS FIZ and PRESCO NS FIZ funds
InvestCapital Malta Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
ProsperoCapital sp. z o.o. w likwidacji (in liquidation)	Wrocław	In liquidation

KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy and other European countries.
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Espana S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. securitisation fund Investment I NS FIZ	Wrocław	Fund which employs professional risk assessment and credit management methodologies. All certificates issued by the fund are held by Presco Investments S.a r.l.
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
Espand Soluciones de Gestion S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain
Corbul S.r.l	Bucharest	Detective services company in Romania, related through its manager.

On June 22nd 2017, a notarial deed was signed whereby two subsidiaries of KRUK S.A., namely Credit Base International S.r.l. and KRUK Italia S.r.l., were merged. In accordance with the deed, the merger was effected on July 1st 2017 by KRUK Italia S.r.l. taking over all the assets, rights and obligations of Credit Base International S.r.l.

All the subsidiaries listed above were consolidated in these condensed consolidated financial statements as at June 30th 2017 and for the period from January 1st to June 30th 2017.



The Company operates 11 offices across Poland, in Poznań, Warsaw, Kraków, Katowice, Bydgoszcz, Łódź, Elbląg, Szczecin, Stalowa Wola, Szczawno-Zdrój, and Piła.

The ownership interests held by the Parent in the subsidiaries as at the date of this report were as follows:

	Country	Shareholdings (%)	
		Jun 30 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%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	-	100%
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.à 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%	100%
Elleffe Capital S.r.l.*	Italy	100%	100%
Espand Soluciones de Gestion S.L.	Spain	100%	100%

* Subsidiaries in which the Company indirectly holds 100% of shares.

2. Reporting period

The reporting period is from January 1st 2017 to June 30th 2017 and the comparative period is from January 1st 2016 to June 30th 2016. The interim condensed consolidated statement of financial position has been prepared as at June 30th 2017 and the comparative data is presented as at June 30th 2016 and December 31st 2016. The interim condensed consolidated statement of changes in equity has been prepared for the period from January 1st 2017 to June 30th 2017 and the comparative periods are from January 1st 2016 to June 30th 2016 and from January 1st 2016 to December 31st 2016. Financial data presented quarterly for the period from 1 April 2017 to 30 June 2017 and for the period from 1 April 2016 to 30 June 2016 were not subject to a separate review or audit by a statutory auditor.

3. Statement of compliance

These interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as endorsed by the European Union.

In the opinion of the Management Board, there are no facts or circumstances which could pose a significant threat to the Group companies continuing as going concerns (except for ProsperoCapital Sp. z o.o., which has been placed in liquidation). Therefore, these interim condensed consolidated financial statements have been prepared under the assumption that the companies will continue as going concerns in the foreseeable future, that is for 12 months from the reporting date.

These financial statements do not contain all the information required to prepare full-year financial statements and therefore should be read in conjunction with the Group's consolidated financial statements prepared as at and for the financial year ended December 31st 2016.

These interim condensed financial statements were authorised for issue by the Parent's Management Board (the "Management Board") on September 5th 2017.

The data contained in these interim condensed 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.

4. Significant accounting policies

Except for the amendments described below, the accounting policies applied to prepare these interim condensed financial statements are consistent with those applied to prepare the most recent full-year consolidated financial statements as at and for the year ended December 31st 2016.

The Group presents its statement of financial position in order of liquidity. For all items of assets and liabilities, the Group discloses in the notes the amount to be received or paid within twelve months after the reporting date (short-term) and in more than twelve months from the reporting date (long-term).

These financial statements include the requirements of all International Accounting Standards, International Financial Reporting Standards as adopted by the European Union and related interpretations that have been issued and effective for annual periods beginning on or after 1 January 2017. These financial statements do not take into account the following standards and interpretations that are awaiting European Union approval or have been approved by the European Union but have entered or will enter into force only after the balance sheet date.

Due to the conclusion of the CCIRS transaction in 2017, the Group has started applying hedge accounting.

The Group acquires derivative instruments to hedge the risk of cash flow fluctuations as a result of changes in interest rates and exchange rates.

Derivatives are initially recognized at fair value. All costs associated with the transaction are recognized in the profit or loss of the current period.

Securing future cash flows

In the case of hedging future cash flows, the effective portion of the hedging instrument's fair value is recognized in other comprehensive income and is recognized as a hedging reserve. An ineffective part of the change in the fair value of the hedging instrument is recognized in profit or loss for the current period.

The cumulative value of the hedging reserve is reclassified to profit or loss for the current period at the same time that the hedged item affects profit or loss.

Where the instrument no longer complies with hedge accounting, the effects of its measurement at fair value are recognized directly in the income statement.

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 after January 1st 2017:

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

On November 22nd 2016, the European Commission published the final text of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: recognition and measurement*. IFRS 9 covers the classification and measurement of financial instruments, impairment of financial instruments and trade receivables, as well as hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1st 2018, with an early adoption option. Requirements concerning classification, measurement and impairment apply retrospectively; however, presentation of comparative data is not mandatory. Requirements concerning hedge accounting apply prospectively, with few exceptions.

The Group intends to adopt the new standard as of its effective date. In 2016 and 2017, the Group performed an initial assessment of the impact of its implementation in all the three areas. The initial assessment was based on the then available information and is subject to change depending on further detailed analyses or availability of new information to the Group in the future. The Group expects a significant effect of the new standard on its assets and equity.

(a) Classification and measurement

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

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

The Group does not expect the new standard to materially affect its other financial assets, including loans advanced.

(b) Impairment

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

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

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

(c) Hedge accounting

The Group is currently analysing the effect of IFRS 9 on the hedge accounting applied.

- IFRS 15 *Revenue from Contracts with Customers* (issued on May 28th 2014), including amendments to IFRS 15: *effective date of IFRS 15* (issued on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018;

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version – not adopted by the EU as at the date of authorisation of these financial statements;
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture* (issued on September 11th 2014) – work leading to the approval of the amendments was postponed by the EU for an indefinite period, the effective date was postponed by the IASB for an indefinite period;
- IFRS 16 *Leases* (issued on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the standard was not adopted by the EU;
- Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on September 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the standard was not adopted by the EU;
- Amendments to IAS 12: *Recognition of deferred tax assets for unrealised losses* (issued on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- Amendments to IAS 7 *Disclosure Initiative* (issued on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- Amendments to IFRS 2 *Classification and measurement of share-based payment transactions* (issued on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- Amendments to IFRSs introduced as part of the Annual Improvements cycle 2014–2016 (issued on December 8th 2016); as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; amendments to IFRS 12 and IFRS 1 are effective for annual periods beginning on

or after January 1st 2017; amendments to IAS 28 are effective for annual periods beginning on or after January 1st 2018;

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- Amendments to IAS 40: *Transfers of investment property* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU;
- IFRS 17 *Insurance Contracts* – effective for annual periods beginning on or after January 1st 2021; as at the date of authorisation of these financial statements, the standard was not adopted by the EU;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the interpretation was not adopted by the EU.

The Management Board is currently analysing the effect of the above changes on the financial statements and financial condition of the Group.

5. Accounting estimates and judgements

In order to prepare interim consolidated financial statements, the Management Board is required to rely on judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from these estimates. The material assumptions underlying the estimates made by the Group and the applied accounting policies have been presented in the most recent consolidated full-year financial statements prepared as at and for the financial year ended December 31st 2016.

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

As of January 1st 2017, Invest Capital 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 operated (functional currency). In making the assessment, the management board of Invest Capital Ltd. relied on its own judgement to establish the functional currency which best reflects the economic effect of transactions, events and circumstances.

6. Financial risk management

The financial risk management rules are presented in the most recent consolidated full-year financial statements prepared as at and for the financial year ended December 31st 2016. From January 1st to June 30th 2017, there were no material changes in the methods of managing financial risk.

7. Reporting and geographical segments

Reporting segments

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

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

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

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

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

- Poland
- Romania
- Italy
- Other foreign markets

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

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

(*) Gross profit = revenue – cost of services sold

Reporting segments

For the reporting period January 1st–June 30th 2017

	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	272,970	202,199	33,114	39,186	547,469
Purchased debt portfolios	248,048	198,036	31,250	27,703	505,037
Collection services	13,048	4,143	1,864	11,483	30,539
Other products	11,874	20	-	-	11,893
Direct and indirect costs					(209,842)
Purchased debt portfolios	-	-	-	-	(184,858)
Collection services	-	-	-	-	(20,780)
Other products	-	-	-	-	(4,204)
Gross profit					337,627
Purchased debt portfolios	-	-	-	-	320,179
Collection services	-	-	-	-	9,759
Other products	-	-	-	-	7,689
Administrative expenses	-	-	-	-	(67,302)
Depreciation and amortisation expense	-	-	-	-	(8,166)
Other income	-	-	-	-	2,587
Other expenses (unallocated)	-	-	-	-	(4,566)
Finance income/costs	-	-	-	-	(37,738)
Profit before tax	-	-	-	-	222,442
Income tax	-	-	-	-	(5,462)



Net profit	-	-	-	-	216,980
Value of debt portfolios as at June 30 2017	1,291,385	831,895	562,924	261,278	2,947,482
For the reporting period January 1st–June 30th 2016					
	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	173,985	142,985	3,893	20,212	341,076
Purchased debt portfolios	150,205	141,360	3,893	19,939	315,398
Collection services	13,751	1,624	-	273	15,649
Other products	10,029	-	-	-	10,029
Direct and indirect costs					(153,512)
Purchased debt portfolios	-	-	-	-	(136,787)
Collection services	-	-	-	-	(10,840)
Other products	-	-	-	-	(5,885)
Gross profit					
Purchased debt portfolios	-	-	-	-	178,611
Collection services	-	-	-	-	4,808
Other products	-	-	-	-	4,144
Administrative expenses	-	-	-	-	(48,458)
Depreciation and amortisation expense	-	-	-	-	(6,099)
Other income	-	-	-	-	1,660
Other expenses (unallocated)	-	-	-	-	(3,005)
Finance income/costs	-	-	-	-	(20,048)
Profit before tax	-	-	-	-	111,613

Income tax	-	-	-	-	(271)
Net profit	-	-	-	-	111,342
Value of debt portfolios as at June 30 2016	1,073,498	585,284	244,827	307,671	2,211,281

8. Seasonality or cyclical of business

The Group's operations are not subject to seasonal or cyclical fluctuations.

9. Type and amount of changes in estimated amounts reported in previous financial years, with a material bearing on the current period

Purchased debt portfolios

In the reporting period, the Group's expenditure on debt portfolios amounted to PLN 505,574 (PLN 727,457 in H1 2016), while recoveries from debtors totalled PLN 647,211 (PLN 446,454 H1 2016). For a description of changes in the estimated value of debt portfolios, see Note 10 to the condensed interim consolidated financial statements.

PLN '000

Investments

Financial assets at fair value through profit or loss

Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
544,723	603,658	647,338
2,402,759	2,037,288	1,564,753
8,776	6,780	5,968
29,457	28,476	22,450
2,985,715	2,676,202	2,240,509

Financial assets measured at amortised cost

Investment property

Loans advanced to other entities

PLN '000

Purchased debt portfolios

Unsecured portfolios

Secured portfolios

Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
2,338,654	2,118,344	1,749,583
608,828	522,602	462,508
2,947,482	2,640,946	2,212,091

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 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
Currency 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 2016	1,598,132
Purchase of debt portfolios	727,457
Purchase price adjustment for discount	(1,209)
Cash recoveries	(446,454)
Increase/(decrease) in liabilities to debtors due to overpayments	630
Value of property	(5,518)
Income from sale of property	(37)
Valuation of loyalty scheme	2,586
Revenue from debt purchase (interest and revaluation)	315,398
Currency translation differences on debt portfolios (*)	20,296
Value of purchased debt portfolios as at Jun 30 2016	2,211,281
Value of purchased debt portfolios as at Jan 1 2017	2,640,946
Purchase of debt portfolios	505,574
Cash recoveries	(647,211)
Increase/(decrease) in liabilities to debtors due to overpayments	349
Value of property	(1,889)
Valuation of loyalty scheme	3,111
Revenue from debt purchase (interest and revaluation)	505,037
Currency translation differences on debt portfolios (*)	(58,435)
Value of purchased debt portfolios as at Jun 30 2017	2,947,482

(*) Applicable to portfolios held by the subsidiaries whose functional currencies are other than the złoty.

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

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

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

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

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

As at June 30th 2017, the value of the KRUK Group's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 141,531 thousand, while revenue shown in the statement of profit or loss was PLN 24,495 thousand.

10. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect

10.1. Revenue

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Revenue from debt purchase	505,037	315,398
Revenue from fee-based credit management services	30,539	15,649
Revenue from other products	11,893	10,030
	<u>547,469</u>	<u>341,076</u>

Revenue from debt purchase

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	442,631	278,075
Revaluation of debt portfolios	53,841	34,945
Foreclosure of property	3,432	2,341
Sale of debts	4,725	-
Sale of property	408	37
	<u>505,037</u>	<u>315,398</u>

Revaluation of debt portfolios

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Revision of recovery forecast	58,819	30,438
Change due to change in discount rate	11	511
Foreign currency gains/losses	(4,989)	3,996
	<u>53,841</u>	<u>34,945</u>

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	163,895	160,450
Revaluation of debt portfolios	70,535	51,996
Foreclosure of property	397	1,625
Sale of debts	40	-
	<u>234,867</u>	<u>214,071</u>

Revaluation of debt portfolios measured at fair value

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Forecast revision	72,550	48,956
Change due to change in discount rate	11	511
Foreign currency gains/losses	(2,026)	2,529
	<u>70,535</u>	<u>51,996</u>

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

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

- Debtors' behaviour patterns and effectiveness of the collection tools applied;
- Changes in currency exchange rates against PLN (for debt portfolios purchased abroad).

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

Revenue from debt portfolios measured at amortised cost

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	278,736	117,625
Revaluation of debt portfolios	(16,694)	(17,051)
Foreclosure of property	3,035	716
Sale of debts	4,685	-
Sale of property	408	37
	<u>270,170</u>	<u>101,327</u>

Revaluation of debt portfolios measured at amortised cost

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Revision of recovery forecast	(13,731)	(18,518)
Foreign currency gains/losses	(2,963)	1,467
	(16,694)	(17,051)

Pursuant to the accounting policies applied by the Company, income and gains on financial instruments at amortised cost are presented as revenue from purchased debt portfolios under operating income.

10.2. Other income

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Reversal of impairment losses on receivables	-	502
Return of compensation for damage caused by motor vehicles	387	398
Gain on sale of property, plant and equipment	756	88
Re-billed costs of services and court fees	780	168
Other	664	504
	2,587	1,660

10.3. Employee benefits expense

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Salaries and wages	(95,136)	(66,537)
Old-age and disability pension contributions	(10,949)	(10,270)
Other social security contributions	(7,299)	(5,744)
Contribution to the State Fund for the Disabled	(592)	(415)
Equity-settled cost of stock option plan	(4,025)	(3,861)
	(118,001)	(86,827)

10.4. Other expenses

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Court fees	(62,295)	(29,880)
Taxes and charges	(17,790)	(41,762)
Raw materials and energy used	(6,781)	(5,201)
Advertising	(4,711)	(745)
Business trips	(3,709)	(780)
Other	(3,525)	(4,667)
Staff training	(2,257)	(1,395)
Motor insurance	(945)	(272)
Losses from damage caused by motor vehicles	(449)	(415)
Entertainment expenses	(362)	(144)
Property insurance	(262)	(54)
	<u>(103,086)</u>	<u>(85,315)</u>

10.5. Finance income

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income on bank deposits	161	640
Net foreign exchange gains	805	5,520
	<u>966</u>	<u>6,160</u>

10.6. Finance costs

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest expense on financial liabilities measured at amortised cost	(38,704)	(26,207)
Net foreign exchange gains	-	-
	<u>(38,704)</u>	<u>(26,207)</u>

10.7. Income tax

PLN '000	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Current income tax	5,098	250
Current income tax liability	5,098	250
Deferred income tax	364	21
Origination/reversal of temporary differences	364	21
Tax liability reported in the statement of profit or loss / in profit/(loss)	5,462	271

PLN '000	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Profit/(loss) before tax	222,442	111,613
Profit before tax for period (assuming 19% tax rate)	256,949	205,234
Profit before tax for period (assuming 16% tax rate)	6,183	(14,551)
Loss before tax for period (assuming 19% tax rate)	(10,564)	(79,070)
Loss before tax for period (assuming 25% tax rate)	(1,894)	-
Loss before tax for period (assuming 27.9% tax rate)	(22,607)	-
Loss before tax for period (assuming 30% tax rate)	(5,624)	-
	222,442	111,613
Tax calculated at the tax rate applicable in Poland (19%)	48,820	38,995
Tax calculated at the tax rate applicable in Romania (16%)	989	(2,328)
Tax calculated at the tax rate applicable in the Czech Republic (19%)	(2,007)	(15,023)
Tax calculated at the tax rate applicable in Spain (25%)	(474)	-
Tax calculated at the tax rate applicable in Italy (27.9%)	(6,307)	-
Tax calculated at the tax rate applicable in Germany (30%)	(1,687)	-
Effect of non-deductible expenses	(33,872)	(21,372)
Effect of tax-exempt income	-	-
Tax calculated at the effective tax rate	5,462	271

The effective tax rate differs from the applicable tax rate as the consolidated data includes data of companies whose operations are not taxed.

As at 30 June 2017 in KRUK S.A. permanent control of the Tax Office. By the day of publication of the semi-annual report the inspection was not completed.

The regulations governing goods and services, corporation tax and social security charges are subject to frequent changes. These frequent changes lead to the absence of relevant benchmarks, inconsistent interpretations, and a few established precedents that could apply. Existing regulations also contain ambiguities that cause differences in opinions as to the legal interpretation of tax legislation, both between state authorities and state bodies and businesses.

Tax settlements and other areas of activity (for example, customs or foreign exchange) may be subject to review by the authorities that are authorized to impose high penalties and fines, and any additional tax liability arising from checks must be paid with high interest. These conditions cause the tax risk in Poland to be higher than in countries with more mature tax system.

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

The Group believes that it has paid all due taxes, penalties and penalty interest on time. For all uncertain tax positions where current legislation and communication with tax authorities do not provide sufficient guidance, the Group has carried out an analysis of current tax laws and interpretations and applied them correctly.

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

As of July 15, 2016, changes have been made to the Tax Code to reflect the provisions of the General Precautionary Abuse Prevention Clause (GAAR). GAAR is supposed to prevent the creation and use of artificial legal structures created to avoid paying taxes in Poland. GAAR defines tax evasion as an act primarily for the purpose of obtaining a tax advantage contradictory in the circumstances of the subject matter and purpose of the tax law. According to GAAR, this action does not result in a tax advantage if the mode of operation is artificial. Any occurrence of (i) unjustified division of operations, (ii) involvement of intermediaries despite economic or economic justification, (iii) mutually supportive or compensating elements, and (iv) other actions of similar nature to those previously mentioned may be treated as a condition of existence. artificial activities subject to GAAR. New regulations will require much greater judgment when assessing the tax implications of individual transactions.

The GAAR should apply to transactions made after it enters into force and to transactions that were carried out before the entry into force of the GAAR but for which, after the date of entry into force of the clause, benefits have been or are still being achieved. The implementation of the above provisions will enable Polish tax authorities to question the legal arrangements and arrangements such as the restructuring and reorganization of the group.

10.8. Differences on translating foreign operations in the statement of comprehensive income

<i>PLN '000</i>	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Exchange differences on translating foreign operations	(44,481)	11,228
Attributable to:		
Owners of the Parent	(44,481)	11,228
Finance income/(Finance cost) recognised in other comprehensive income	(44,481)	11,228

<i>PLN '000</i>	Jun 30 2017 unaudited	Dec 31 2016
InvestCapital Malta Ltd.	(32,344)	-
SeCapital S.à r.l.	(10,410)	(1,863)
KRUK Romania S.r.l	(41)	103
KRUK Česká a Slovenská republika s.r.o.	647	729
RoCapital IFN S.A.	(87)	62
Kruk Deustschland Gmbh	(1,547)	1,240
KRUK Italia S.r.l.	(228)	23
ItaCapital S.r.l.	76	(65)
KRUK Espana S.r.l.	(1,036)	(821)
ProsperoCapital S.à r.l.	(60)	-
Credit Base International S.r.l.	(7)	-
Espand Soluciones de Gestion S.L.	(37)	-
	(45,074)	(592)

10.9. Borrowings, finance lease liabilities and other financial liabilities

PLN '000

	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Non-current liabilities			
Secured borrowings	205,949	143,246	190,410
Liabilities under debt securities (unsecured)	1,377,575	1,227,027	866,778
Finance lease liabilities	7,019	6,812	4,879
	1,590,543	1,377,085	1,062,067
Current liabilities			
Short-term portion of secured borrowings	79,300	124,105	27,589
Liabilities under debt securities (unsecured)	33,854	138,074	192,356
Short-term portion of finance lease liabilities	4,781	7,147	6,435
Dividend liabilities	37,488	-	35,491
	155,423	269,326	261,871

PLN '000	Currency	Nominal interest rate	Maturing in	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Borrowings secured over the Group's assets	PLN	1M WIBOR + margin of 1.0–4.25 pp	2024	285,249	267,351	217,999
		3M WIBOR + margin of 3.5–5.0 pp	2020			
Liabilities under debt securities (unsecured)	PLN	3M WIBOR or 1M EURIBOR + margin of	2020	1,411,429	1,365,101	1,059,134
Finance lease liabilities	PLN EUR	0.68–4.0 pp		11,800	13,959	11,314
				1,708,478	1,646,411	1,288,447

10.10. Hedge accounting

From January 2017, the Company applies hedge accounting for cash flow hedges.

Securing future cash flows

On January 9, 2017 KRUK S.A. concluded with Bank BZWBK S.A. Cross Currency Interest Rate Swap (CIRS) transaction to secure a portion of a 3M WIBOR floating rate coupon for 100M of the nominal amount of Z1 Series bonds and cash flows in EUR from invested funds in subsidiaries.

Information	Description
Definition of risk management objective and strategy	<p>The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by bonds in PLN due to changes in reference interest rates and investments in subsidiaries denominated in convertible currency due to exchange rate fluctuations.</p> <p>KRUK SA issued Z1 series bonds (in PLN with floating interest rate based on WIBOR3M). The cash received has been invested in subsidiaries. Planned proceeds from the invested funds will be in EUR and will not be subject to the same volatility as the hedged instrument (WIBOR3M bonds).</p>
Identification of a security instrument	<p>Contract description:</p> <ul style="list-style-type: none"> - interest rate swap transaction (CCIRS) Fixed Rate Fixed Payer -KRUK S.A. - basic amount of the fixed interest rate payer -> 22.847.742,64 EUR Fixed percentage rate (payer - KRUK S.A.): 3.06% - interest payment date - according to schedule - base for fixed interest rate calculation - AFI / 365 - initial exchange of capital - does not take place - final exchange of capital -> EUR 22,847,742.64 <p>Variable interest rate payer -BZ WBK S.A.</p> <ul style="list-style-type: none"> - the basic amount of the fixed interest rate payer -> 100,000,000.00 PLN - variable rate for the initial period (payer - BZ WBK S.A.): 4.83% - Margin - 3.10% - Variable rate option - 3 months PLN - WIBOR - interest payment date - according to schedule - base for fixed interest rate calculation - AFI / 365 - initial exchange of capital - does not take place - final exchange of capital -> 100,000,000.00 PLN
Identification of hedged assets or liabilities	<p>Description of hedged assets or liabilities:</p> <ul style="list-style-type: none"> - assets - value - securing the proceeds from investments in subsidiaries - value - security of the coupon part for PLN 100m of Z1 series bonds - term of maturity - 3 months interest periods
Characterization of the risk associated with the hedged item	<p>Interest rate change depending on 3M WIBOR Exchange rate change EUR / PLN.</p>
Security Period	<ul style="list-style-type: none"> - Contract Start Date: 09.01.2017 - Contract end date: 04.06.2021 - Designing for hedge accounting: 09.01.2017

On January 13, 2017 KRUK S.A. He concluded with Bank BZWBK S.A. Cross Currency Interest Rate Swap (CIRS) to secure part of a 3M WIBOR floating rate coupon for 90m AA1 series nominal amount and cash flow in EUR from invested funds in subsidiaries.

Information	Description
Definition of risk management objective and strategy	<p>The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by bonds in PLN due to changes in reference interest rates and investments in subsidiaries denominated in convertible currency due to exchange rate fluctuations.</p> <p>KRUK SA issued AA1 series bonds (in PLN with floating interest rate based on WIBOR3M). The cash received has been invested in subsidiaries. Planned proceeds from the invested funds will be in EUR and will not be subject to the same volatility as the hedged instrument (WIBOR3M bonds).</p>
Identification of a security instrument	<p>Contract description:</p> <ul style="list-style-type: none"> - interest rate swap transaction (CCIRS) Fixed Rate Fixed Payer -KRUK S.A. - basic amount of the fixed interest rate payer -> 20.570.018,06 EUR Fixed percentage rate (payer - KRUK S.A.): 2.97% - interest payment date - according to schedule - base for fixed interest rate calculation - AFI / 365 - initial exchange of capital - does not take place - final exchange of capital -> EUR 20.570.018,06 <p>Variable interest rate payer -BZ WBK S.A.</p> <ul style="list-style-type: none"> - the basic amount of the fixed interest rate payer -> 90,000,000.00 PLN - variable rate for the initial period (payer - BZ WBK S.A.): 4.73% - Margin - 3.00% - Variable rate option - 3 months PLN - WIBOR - interest payment date - according to schedule - base for fixed interest rate calculation - AFI / 365 - initial exchange of capital - does not take place - final exchange of capital -> 90,000,000.00 PLN
Identification of hedged assets or liabilities	<p>Description of hedged assets or liabilities:</p> <ul style="list-style-type: none"> - assets - value - securing the proceeds from investments in subsidiaries - value - security of the coupon part for PLN 90m of AA1 series bonds - term of maturity - 3 months interest periods
Characterization of the risk associated with the hedged item	<p>Interest rate change depending on 3M WIBOR Exchange rate change EUR / PLN.</p>

Security Period

- Contract Start Date: 13.01.2017
- Contract end date: 10.11.2021
- Designing for hedge accounting: 13.01.2017

Type of instrument:
**Carrying value / fair value of derivative instruments that
are subject to interest rate and / or exchange rate cash
flow**

	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
CIRS	5,138	-	-	-
Total	5 138	-	-	-

Nominal value dated 30th June 2017**Type of instrument:**

	up 1 months	more than 1 month less than 3 months	more than 3 months less than 1 year	more than 1 year up to 5 years	More than 5 years	Total
CIRS						
float PLN purchase	-	-	-	190,000	-	190,000
fixed EUR sell (original currency)	-	-	-	43, 418	-	43 418

Nominal value dated 31st December 2016**Type of instrument:**

	up 1 months	more than 1 month less than 3 months	more than 3 months less than 1 year	more than 1 year up to 5 years	More than 5 years	Total
CIRS						
float PLN zakup	-	-	-	-	-	-
fixed EUR sprzedaż (waluta oryginalna)	-	-	-	-	-	-

Other comprehensive income due to cash flow hedges	01.01.2016	
	01.01.2017 - 30.06.2017	- 30.06.2016
Inne dochody całkowite na początek okresu brutto	-	-
Other gross income at the beginning of the gross period	6,470	-
Amount transferred during the period from other comprehensive income to the profit and loss account	1,332	-
- interest income	1,332	-
Accumulated other comprehensive income at the end of the gross period	5,138	-
Tax effect	-976	-
Accumulated other comprehensive income at the end of the net period	4,162	-
Nieefektywna część zabezpieczenia przepływów pieniężnych rozpoznana w rachunku zysków i strat	-	-
Ineffective portion of cash flow hedges recognized in the income statement	5,138	-
Influence over the period on other total gross income	-976	-
Deferred tax for cash flow hedges	4,162	-

10.1. Earnings per share

Basic earnings per share

'000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Dec 31 2016	Jan 1–Jun 30 2016 unaudited
Number of ordinary shares as at Jan 1	18,744	17,398	17,398
Effect of cancellation and issue of shares	-	259	95
Weighted average number of ordinary shares	18,744	17,657	17,493
PLN			
Earnings per share (basic)	11.57	14.08	6.37

Diluted earnings per share

'000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Dec 31 2016	Jan 1–Jun 30 2016 unaudited
Weighted average number of ordinary shares	18,744	17,657	17,493
Effect of share option issue	442	698	642
Weighted average number of ordinary shares (diluted)	19,186	18,355	18,135
PLN			
Earnings per share (diluted)	11.31	13.55	6.14

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

As at Jun 30 2017

PLN '000

		Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Assets				
Non-current assets				
	Property, plant and equipment	27,088	27,473	20,925
	Intangible assets	15,366	14,293	13,246
	Goodwill	62,604	62,604	1,024
	Hedge derivatives	4,162	-	-
	Deferred tax asset	-	-	3,067
Total non-current assets		110,196	104,371	38,262
Current assets				
	Inventories	289,000	485,000	601,000
	Investments	2,985,715	2,676,202	2,240,509
	Trade receivables from other entities	18,414	13,452	7,924
	Other receivables	45,203	28,145	25,345
	Other assets	4,082	5,658	3,264
	Cash and cash equivalents	120,132	267,384	137,816
Total current assets		3,173,835	2,991,326	2,415,459
Total assets		3,284,031	3,095,697	2,453,721
Equity				
	Share capital	18,744	18,744	17,744
	Share premium	288,326	288,326	77,766
	Cash flow hedging reserve	4,162	-	-
	Translation reserve	(45,074)	(592)	3,553
	Other capital reserves	80,863	76,658	72,818
	Retained earnings	1,033,771	854,354	717,040
Equity attributable to owners of the Parent		1,380,612	1,237,490	888,921
Non-controlling interests		76	14	(3)
Equity total		1,380,688	1,237,504	888,918
Non-current liabilities				
	Non-current liabilities under borrowings and other debt instruments	1,590,543	1,377,085	1,062,067
	Deferred tax liability	4,943	4,018	-
Total non-current liabilities		1,595,486	1,381,142	1,062,067
Current liabilities				
	Current liabilities under borrowings and other debt instruments	155,423	269,326	261,871
	Trade and other payables	121,562	169,248	213,259
	Income tax payable	-	4,057	-
	Employee benefit obligations	30,872	34,396	27,342
	Deferred tax liability	-	-	264,000
Total current liabilities		307,857	477,049	502,736

Total liabilities	1,903,343	1,858,191	1,564,803
Total equity and liabilities	<u>3,284,031</u>	<u>3,095,697</u>	<u>2,453,721</u>

11. Financial instruments

Fair value

The fair value and carrying amount of financial assets and liabilities are presented below:

		Jun 30 2017 unaudited		Dec 31 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>PLN '000</i>					
	<i>Note</i>				
Financial assets and liabilities measured at fair value					
Financial instruments at fair value through profit or loss	9	544,723	544,723	603,658	603,658
Hedge derivatives		5,138	5,138	-	-
		<u>549,861</u>	<u>549,861</u>	<u>603,658</u>	<u>603,658</u>
Financial assets and liabilities not measured at fair value					
Financial assets measured at amortised cost	9	2,402,759	2,274,421	2,037,288	1,967,113
Loans and receivables	9	29,457	31,896	70,073	70,073
Secured bank borrowings	10.10	(285,249)	(285,249)	(267,351)	(267,351)
Unsecured bonds in issue	10.10	(1,411,429)	(1,414,181)	(1,365,101)	(1,366,204)
Finance lease liabilities	10.10	(11,800)	(11,800)	(13,959)	(13,959)
Trade and other payables		(121,562)	(121,562)	(169,248)	(169,248)
		<u>602,176</u>	<u>473,525</u>	<u>291,702</u>	<u>220,424</u>

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

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

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

In 2014–2017, no transfers were made between the levels.

Hierarchy of financial instruments – Level 2

PLN '000				
	Jun 30 2017 unaudited	-	Level 2	Total
Hedge derivatives			5,138	5,138
Total			5,138	5,138

PLN '000				
	31.12.2016	-	Level 2	Total
Hedge derivatives			-	-
Total			-	-

It has been concluded that effective implementation of KRUK S.A.'s growth strategy requires, among other elements, a proper interest rate risk management policy.

The interest rate risk management policy covers the following:

- the Company's objectives in terms of interest rate risk,
- interest rate risk monitoring methods,
- the Company's permissible exposure to the interest rate risk,
- procedures in case of exceeding permissible exposure to the interest rate risk,
- interest rate risk management rules of the KRUK Group.

In 2017, the Company and Bank Zachodni WBK S.A. entered into two cross currency interest rate swap contracts ("CIRS"). 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:

- A contract executed on January 9th 2017 hedges the 3M WIBOR-linked coupon on bonds with a nominal value of PLN 100m. The Company pays at a fixed rate of 3.06%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on June 4th 2021. On that day, the Company will receive PLN 100m from BZ WBK and will pay EUR 22.8m to BZ WBK.
- A contract executed on January 13th 2017 hedges the 3M WIBOR-linked coupon on bonds with a nominal value of PLN 90m. The Company pays at a fixed rate of 2.97%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on November 10th 2021. On that day, the Company will receive PLN 90m from BZ WBK and will pay EUR 20.6m to BZ WBK.

The purpose of the transaction is to hedge future cash flows.

The fair value of CIRS transactions is measured on the basis of future cash flows from transactions, calculated based on the difference between the forecasted 3M WIBOR and the 3M WIBOR on the transaction date. To determine the fair value, the Group applies a 3M WIBOR forecast provided by a third party.

Hierarchy of financial instruments – Level 3

PLN '000	Jun 30 2017 unaudited	-	Level 3	Total
Financial instruments at fair value through profit or loss			544,723	544,723
Financial assets measured at amortised cost			2,274,421	2,274,421
Total			2,819,144	2,819,144

PLN '000	Dec 31 2016	-	Level 3	Total
Financial instruments at fair value through profit or loss			603,658	603,658
Financial assets measured at amortised cost			1,967,113	1,967,113
Total			2,570,771	2,570,771

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

The Group did not make any transfers between fair value levels.

Purchased debt portfolios

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

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

The Group measures debt portfolios purchased prior to January 1st 2014 at least four times in any given 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.

Discount rates applied to expected cash flows reflect the credit risk relating to a given portfolio. At initial recognition, the discount rate is the expected internal rate of return reflecting the purchase price and the estimated cash flows, determined as at the portfolio purchase date. As at each measurement date, the Group verifies the adopted discount rates to ensure that they reflect the then current risk-free rate and risk premium relating to credit risk of a given portfolio.

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

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

Sensitivity analysis – purchased debt portfolios measured at fair value

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

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

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

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

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

- debtors’ behaviour patterns and effectiveness of the collection tools applied;
- assessment of debtors’ financial position following changes in the macroeconomic situation on each market,
- exchange rate movements against PLN (for debt portfolios not measured in the parent’s functional currency).

Assumptions for the valuation of debt portfolios

	Jun 30 2017 unaudited	Dec 31 2016
Discount rate		
- risk-free*	-0.0125% - 2.11%	-0.1%-2,15%
- risk premium**	5.77% - 321.14%	7.05%-321,14%
Period for which cash flows have been estimated	Jul 2017–Dec 2033	Jan 2017–Dec 2032
Nominal value of expected future cash flows	5,477,156	5,037,123

* *Varies by market.*

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

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

PLN '000	Jun 30 2017 unaudited	Dec 31 2016
Period		
Less than 6 months	660,894	563,555
From 6 to 12 months	629,525	580,262
From 1 to 2 years	1,203,424	1,047,675
From 2 to 5 years	2,057,328	1,965,730
Over 5 years	925,985	879,901
	5,477,156	5,037,123

Total exposure to credit risk

PLN '000	Jun 30 2017 unaudited	Dec 31 2016
Poland	1,475,513	1,363,792
Romania	851,311	765,021
Italy	580,413	343,164
Czech Republic	124,146	113,920
Other foreign markets	141,130	125,122
	3,169,464	2,711,019

12. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance

The key factor with a bearing on the current period's performance was investments in debt portfolios made in the current and previous periods.

Investments in debt portfolios in H1 2017 totalled PLN 506m, allowing the KRUK Group to purchase 49 portfolios with a total nominal value of PLN 7.4bn.

The largest share in investments in the first six months of 2017 was claimed by the Italian market, where expenditure on debt portfolios amounted to PLN 238m or 47% of the Group's total expenditure in H1 2017, with the nominal value of portfolios purchased in Italy in H1 2017 totalling PLN 4.5bn.

In 2017 the Company concluded with Bank Zachodni WBK S.A. Two currency contracts of interest rate swaps (CIRS). Security contracts are described on page 42.

Valuation of CIRS instruments in the amount of PLN 5,148 thousand. PLN was designated for other comprehensive income. In case of ineffectiveness of the instruments, the relevant part of the valuation will be recognized in the profit and loss account. On January 16th 2017, a firm agreement was signed between subsidiary ItaCapital S.r.l. of Milan and Banca IFIS of Venice. The agreement provided for purchase of unsecured consumer loan debts with a total nominal value of EUR 744.6m.

On May 29th 2017, a firm agreement was signed between subsidiary InvestCapital Malta Ltd. of Malta and BRD Groupe Societe Generale S.A. of Bucharest. The agreement provided for the purchase of secured and unsecured corporate debt portfolios with a total nominal value of RON 1.25bn.

On June 19th 2017, a firm agreement was signed between subsidiary ItaCapital S.r.l. and Deutsche Bank S.p.A of Milan. The agreement provided for the purchase of unsecured consumer loan debts with a total nominal value of EUR 131.7m.

As at June 30th 2017, the Group's investments in debt portfolios accounted for 89% of its assets. Equity accounted for 42% of the financing for the Group's operations.

In line with investors' expectations, the KRUK Group presents the following financial ratios as at June 30th 2017:

1.15 – Debt Ratio

2.06 – Net Financial Debt / Cash EBITDA Ratio;

where:

Debt Ratio means the ratio of Net Financial Debt to Equity;

Net Financial Debt represents the KRUK Group's Financial Liabilities less the KRUK Group's cash;

Equity means the KRUK Group's equity;

Financial Liabilities means total financial liabilities under:

- Bonds or other similar debt securities; or
- Non-bank borrowings; or
- Bank borrowings (credit facilities); or
- Finance leases; or
- Promissory notes issued by way of security for liabilities of non-KRUK Group entities; or
- Guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Accession to debt owed by non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Liabilities arising under derivatives contracts;

Cash EBITDA represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.

13. Issue, redemption and repayment of non-equity and equity securities

On April 13th 2017, the KRUK Management Board passed resolutions to issue up to 20,000 Series AE1 bonds. The Company resolved to issue up to 20,000 Series AE1 unsecured bearer bonds with a nominal value of EUR 1,000 per bond, maturing 60 months after the allotment date.

On May 26th 2017, the KRUK Management Board passed resolutions to issue up to 20,000 Series AE2 bonds. The Company resolved to issue up to 20,000 Series AE2 unsecured bearer bonds with a nominal value of EUR 1,000 per bond, maturing 60 months after the allotment date.

On July 3rd 2017, KRUK S.A. and subsidiary InvestCapital Malta 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. Other terms and conditions of the agreement do not differ from those commonly used in agreements of such type.

14. Dividends paid (or declared)

On March 28th 2017, the Management Board of KRUK S.A. passed a resolution to recommend to the Parent's Annual General Meeting distribution of dividend of PLN 2 per share to KRUK S.A. shareholders from the net profit earned by the Company in 2016 and increased by an amount transferred from statutory reserve funds.

The recommendation on dividend payment and dividend amount was prepared taking into account the KRUK Group's current financial condition as well as its further growth strategy, plans and prospects. The Management Board may recommend distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial condition.

In its resolution, effective as of March 31st 2017, on the assessment of the Management Board's proposal on distribution of KRUK S.A.'s net profit for 2016 and evaluation of the dividend recommendation, the Supervisory Board approved the proposals.

On May 15th 2017, the Annual General Meeting decided to allocate all of the Company's net profit for 2016 for dividend payments to the shareholders and to pay them a dividend of PLN 2.00 per share. The dividend was paid from the Company's net profit of PLN 4,212,086.30 for 2016 and retained earnings of PLN 33,276,345.70 on July 5th 2017.

15. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance

After the end of the first six months of 2017, there were no events with a potentially material bearing on the Group's future performance other than those described in the interim consolidated financial statements.

16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

Security for future liabilities

Following the execution on December 19th 2016 of Annex 2 to the framework agreement on the procedure for execution and settlement of transactions of June 13th 2013 between KRUK S.A. and Bank Zachodni WBK SA, on January 9th 2017 KRUK S.A. issued a blank promissory note with a promissory note declaration in favour of Bank Zachodni WBK S.A., securing KRUK S.A.'s liabilities under treasury transactions made on the basis of the framework agreement of June 13th 2013, as amended. In accordance with the promissory note declaration, the promissory note may be cashed by Bank Zachodni WBK S.A. for up to PLN 99,000 thousand until the derivative transactions are settled and any related claims of the Bank are satisfied. The framework agreement on the procedure for execution and settlement of treasury transactions, as amended, does not create any obligation to enter into treasury transactions.

Following the execution, on December 15th 2016, of Annex 3 to the revolving credit facility agreement of October 3rd 2014 between KRUK S.A. and Bank BGŻ BNP Paribas S.A., on March 17th 2017 an agreement was signed to create a registered pledge under Luxembourg law over 17,073 Class D shares in a compartment of SeCapital S.à.r.l. The pledge agreement was concluded between KRUK S.A., SeCapital S.à.r.l. and Bank BGŻ BNP Paribas S.A. The pledge secures Bank BGŻ BNP Paribas S.A.'s claims under the revolving credit facility agreement, including the principal of up to PLN 112,500 thousand plus interest, fees and commissions, and expenses (if any). As at June 30th 2017, a pledge existed over 94,456 Class D shares in compartment D of Secapital S.à.r.l., with a carrying amount, as disclosed in KRUK S.A.'s accounting books, of PLN 103,901 thousand.

In connection with the revolving credit facility agreement of April 8th 2011, as amended, between KRUK S.A. and Bank Zachodni WBK SA, on March 2nd 2017 KRUK S.A. and Bank Zachodni WBK concluded:

- Agreement on termination of the registered pledge agreement of April 14th 2011, as amended, under which a pledge was created in favour of Bank Zachodni WBK S.A. over 5,389 Class E shares in sub-fund E of Secapital S.à.r.l., with a carrying amount, as disclosed in KRUK S.A.'s accounting books, of PLN 5,389 thousand;
- Agreement on termination of the registered pledge agreement of May 14th 2012, as amended, under which a pledge was created in favour of Bank Zachodni WBK S.A. over 1,735 Class E shares in sub-fund E of Secapital S.à.r.l., with a carrying amount, as disclosed in KRUK S.A.'s accounting books, of PLN 1,735 thousand;
- Agreement on termination of the registered pledge agreement of June 9th 2014, as amended, under which a pledge was created in favour of Bank Zachodni WBK S.A. over 30,000 Class E shares in sub-fund E of Secapital S.à.r.l., with a carrying amount, as disclosed in KRUK S.A.'s accounting books, of PLN 30,000 thousand;

- Annex 3 to the registered pledge agreement of May 7th 2014, as amended, between KRUK S.A., SeCapital S.à.r.l. and Bank Zachodni WBK S.A. In accordance with the annex, 49,180 shares with a carrying amount, as disclosed in KRUK S.A.'s accounting books, of PLN 49,180 thousand are pledged in favour of Bank Zachodni WBK S.A.

Following the execution of a non-revolving working capital facility agreement of December 5th 2016 between POKURA NS FIZ, KRUK S.A. and PKO BP S.A., in order to secure PROKURA NS FIZ's liabilities,

- on January 12th 2017 PROKURA NS FIZ and KRUK TFI S.A. signed Annex 1 to an agreement on a registered pledge over a set of rights, dated July 8th 2016, creating a pledge over debts purchased by PROKURA NS FIZ in favour of Bank PKO BP S.A. On February 7th 2017, the pledge was entered in the pledge register. As at June 30th 2017, the total carrying amount of the pledged assets in PROKURA NS FIZ's accounting books was PLN 80,256 thousand.

Piotr Krupa
*President of the
Management Board*

Agnieszka Kulon
*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*

Wrocław, September 5th 2017

III. Interim condensed separate financial statements

1. Interim condensed separate statement of financial position

As at June 30th 2017,
PLN '000

	Note	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Assets				
Cash and cash equivalents		25,660	162,936	12,050
Trade receivables from related entities		24,247	38,883	20,127
Trade receivables from other entities		3,083	3,301	3,907
Investments	5	189,064	162,976	75,651
Hedge derivatives		5,138	-	-
Other receivables		15,825	15,292	9,746
Inventories		69	188	240
Property, plant and equipment		20,457	21,019	15,408
Intangible assets		13,616	13,261	12,095
Deferred tax asset		-	-	2,673
Investments in subsidiaries	6.6	2,108,921	1,940,043	1,529,502
Other assets		2,753	4,402	2,032
Total assets		2,408,833	2,362,301	1,683,431
Equity and liabilities				
Liabilities				
Trade and other payables		31,043	39,152	23,692
Employee benefit obligations		17,937	19,741	16,685
Income tax payable		-	3,514	-
Liabilities under borrowings and other debt instruments	6.7	1,701,502	1,594,627	1,229,833
Deferred tax liability		5,967	4,018	-
Total liabilities		1,756,449	1,661,052	1,270,210
Equity				
Share capital		18,744	18,744	17,744
Share premium		288,326	288,326	77,766
Cash flow hedging reserve		4,162	-	-
Other capital reserves		80,684	76,659	72,818
Retained earnings		260,468	317,522	244,893
Total equity		652,384	701,251	413,221
Total equity and liabilities		2,408,833	2,362,301	1,683,431

2. Interim condensed separate statement of profit or loss

For the reporting period January 1st–June 30th 2017

PLN '000

	Note	Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Apr 1–Jun 30 2016 unaudited
Revenue	6.1	64,605	36,699	58,527	30,755
Other income		1,315	676	524	260
Employee benefits expense	6.2	(58,927)	(30,742)	(48,538)	(25,952)
Depreciation and amortisation expense		(5,618)	(2,875)	(4,032)	(1,830)
Contracted services		(18,629)	(10,105)	(16,122)	(8,432)
Other expenses		(17,914)	(10,611)	(14,357)	(8,457)
		(101,088)	(54,333)	(83,049)	(44,671)
Operating loss		(35,168)	(16,958)	(23,998)	(13,651)
Finance income	6.3	53,116	30,384	980	559
Finance costs	6.4	(36,539)	(17,699)	(45,590)	(31,790)
Net finance income/(costs)		16,577	12,685	(44,610)	(31,231)
Profit/(loss) before tax		(18,591)	(4,273)	(68,608)	(44,887)
Income tax	6.5	(974)	(1,936)	192	(770)
Net profit/(loss) for period		(19,565)	(6,209)	(68,416)	(45,657)
Earnings/(loss) per share					
Basic (PLN)		(1.04)	(0.33)	(3.91)	(2.61)
Diluted (PLN)		(1.02)	(0.32)	(3.77)	(2.52)

3. Interim condensed separate statement of comprehensive income

For the reporting period January 1st–June 30th 2017

PLN '000

	Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2016 unaudited
Net profit for period	(19,565)	(6,209)	(68,416)	(45,657)
Other comprehensive income				
Items that may be reclassified to profit or loss				
Cash flow hedges	5,138	(448)	-	-
Other comprehensive income, net, for period	5,138	(448)	-	-
Total comprehensive income for period	(14,427)	(6,657)	(68,416)	(45,657)
Comprehensive income per share				
Basic (PLN)	(0.77)	(0.36)	(3.91)	(2.61)
Diluted (PLN)	(0.75)	(0.35)	(3.77)	(2.52)

4. Interim condensed separate statement of changes in equity

For the reporting period January 1st–June 30th 2017

PLN '000

	Share capital	Share premium	Cash flow hedging reserve	Other capital reserves	Retained earnings	Total equity
Equity as at Jan 1 2016	17,398	64,382	-	68,957	348,800	499,537
Net profit for period	-	-	-	-	(68,416)	(68,416)
Total other comprehensive income			-		(68,416)	(68,416)
Total comprehensive income for period	-	-	-	-	(68,416)	(68,416)
Contributions from and distributions to owners						
- Payment of dividends					(35,491)	(35,491)
- Share-based payments	-	-	-	3,861	-	3,861
- Issue of shares	346	13,384				13,730
Total contributions from and distributions to owners	346	13,384	-	3,861	(35,491)	(17,900)
Total equity as at Jun 30 2016	17,744	77,766	-	72,818	244,893	413,221
Equity as at Jan 1 2016	17,398	64,382	-	68,957	348,800	499,537
Comprehensive income for period						
Net profit for period	-	-	-	-	4,212	4,212
Total comprehensive income for period	-	-	-	-	4,212	4,212
Contributions from and distributions to owners	-	-	-	-	-	-
- Payment of dividends					(35,491)	(35,491)
- Share-based payments	-	-	-	7,702	-	7,702
- Issue of shares	1,346	223,944	-	-	-	225,290
Total contributions from and distributions to owners	1,346	223,944	-	7,702	-	197,501
Total equity as at Dec 31 2016	18,744	288,326	-	76,659	317,521	701,251
Equity as at Jan 1 2017	18,744	288,326	-	76,659	317,521	701,251
Comprehensive income for period						
Net profit for period	-	-	-	-	(19,565)	(19,565)
- Valuation of hedging instruments			4,162		-	4,162
Total comprehensive income for period	-	-	4,162	-	(19,565)	(15,403)

10

Contributions from and distributions to owners

- Payment of dividends	-	-	-	(37,488)	(37,488)
- Share-based payments	-	-	-	4,025	4,025
- Issue of shares	-	-	-	-	-
Total contributions from and distributions to owners	-	-	-	4,025	(33,463)

Total equity as at Jun 30 2017

18,744	288,326	4,162	80,684	260,468	652,385
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5. Interim condensed separate statement of cash flows

For the reporting period January 1st–June 30th 2017

PLN '000

	Jan 1–Jun 30 2017 unaudited	Apr 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited	Apr 1–Jun 30 2016 unaudited
Cash flows from operating activities				
Net profit/(loss) for period	(19,565)	(6,209)	(68,416)	(45,628)
<i>Adjustments</i>				
Depreciation of property, plant and equipment	3,483	1,795	2,327	1,023
Amortisation of intangible assets	2,135	1,101	1,872	973
Net finance (income)/costs	(12,873)	(8,926)	44,236	31,900
(Gain)/loss on sale of property, plant and equipment	(702)	(410)	(114)	(76)
Equity-settled share-based payments	4,025	2,024	3,861	1,933
Income tax	973	1,935	(192)	741
Change in other short-term investments	-	-	(402)	(858)
Change in debt portfolios purchased	2,307	(1,624)	(2,393)	(4,923)
Change in inventories	119	29	(8)	(28)
Change in receivables	14,781	(3,701)	(5,414)	(10,614)
Change in prepayments and accrued income	1,649	705	87	480
Change in current liabilities	(8,112)	(1,106)	(2,612)	1,322
Change in employee benefit obligations	(1,805)	(2,317)	(5,677)	(2,440)
Income tax paid	(3,514)	-	(2,793)	385
Net cash from operating activities	(17,099)	(16,704)	(35,638)	(25,809)
Cash flows from investing activities				
Interest received	132	20	92	81
Loans advanced	(48,888)	(34,505)	(57,010)	(17,143)
Sale of intangible assets and property, plant and equipment	1,187	873	250	212
Dividends received	35,128	20,623	800	800
Disposal of financial assets	151,062	110,985	190,988	120,511
Purchase of intangible assets and property, plant and equipment	(2,759)	(911)	(4,953)	(2,608)
Acquisition of financial assets	(321,028)	(190,783)	(438,004)	(428,619)
Repayment of loans advanced	26,158	16,102	62,895	10,438
Net cash from investing activities	(159,009)	(77,597)	(244,942)	(316,328)
Cash flows from financing activities				
Net proceeds from issue of shares	-	-	13,730	9,070
Proceeds from issue of debt securities	168,391	168,391	457,900	288,680
Increase in borrowings	613,599	366,853	550,921	380,542
Repayment of borrowings	(582,929)	(348,175)	(620,789)	(323,915)
Payments under finance lease agreements	(3,265)	(1,955)	(1,631)	(914)
Redemption of debt securities	(120,000)	(60,000)	(91,000)	(7,000)
Interest paid	(36,963)	(20,596)	(21,707)	(8,484)
Net cash from financing activities	38,833	104,518	287,425	337,980
Total net cash flows	(137,276)	10,216	6,845	(4,157)
Cash and cash equivalents at beginning of period	162,936	15,444	5,206	16,208
Cash and cash equivalents at end of period	25,660	25,660	12,050	12,050

V. Notes to the interim condensed separate financial statements

1. Company details

Name

KRUK Spółka Akcyjna ("KRUK S.A." or "the Company")

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. Grabiszyńska 269, 53-235 Wrocław, Poland

Date of entry: September 7th 2005

Entry number: KRS 0000240829

Business profile

The Company's principal business activities are the restructuring and recovery of debts purchased by the KRUK Group companies (the "Group") and the provision of debt collection services to financial institutions and other clients.

2. Reporting period

The reporting period is from January 1st 2017 to June 30th 2017 and the comparative period is from January 1st 2016 to June 30th 2016. The interim condensed separate statement of financial position has been prepared as at June 30th 2017 and the comparative data is presented as at June 30th 2016 and December 31st 2016. The interim condensed separate statement of changes in equity has been prepared for the period from January 1st 2017 to June 30th 2017 and the comparative periods are from January 1st 2016 to June 30th 2016 and from January 1st 2016 to December 31st 2016.

3. Statement of compliance

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as endorsed by the European Union.

These financial statements do not contain all the information required to prepare full-year financial statements and therefore should be read in conjunction with the Group's interim condensed consolidated financial statements for the reporting period from January 1st to June 30th 2016 and with Kruk S.A.'s separate financial statements and the Group's consolidated financial statements prepared as at and for the financial year ended December 31st 2016.

These interim condensed separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on August 28th 2017.

The data contained in these interim condensed separate financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand.

In the opinion of the Management Board, there are no facts or circumstances which could pose a significant threat to the Company continuing as a going concern. Therefore, these interim condensed separate financial statements have been prepared on a going concern basis.

4. Significant accounting policies

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with those applied to prepare the most recent full-year separate financial statements as at and for the year ended December 31st 2016.

The Company presents its statement of financial position in order of liquidity. For all items of assets and liabilities, the Company discloses in the notes the amount to be received or paid within twelve months after the reporting date (short-term) and in more than twelve months after the reporting date (long-term).

Changes in applicable standards and interpretations are included in the interim condensed consolidated financial statements.

Accounting estimates and judgements

In order to prepare interim separate financial statements, the Management Board is required to rely on judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from these estimates. The material assumptions underlying the estimates made by the Company and the applied accounting policies have been presented in the most recent full-year separate financial statements prepared as at and for the financial year ended December 31st 2016.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised. The impact of changes in the estimates of recoveries from debt portfolios is presented in Note 6.

Other explanatory information

These interim condensed separate financial statements should be read in conjunction with the interim condensed consolidated financial statements of the KRUK Group prepared as at June 30th 2017 and for the period from January 1st to June 30th 2017.

5. Type and amount of changes in estimated amounts reported in previous financial years, with a material bearing on the current period

Purchased debt portfolios

In the reporting period, the Company did not incur expenditure on debt portfolios, while recoveries from debtors totalled PLN 27,825 (PLN 30,166 in H1 2016). For a description of changes in the estimated value of debt portfolios, see Note 10 to the condensed interim consolidated financial statements. Complete data on purchased debt portfolios are presented in the consolidated financial statements.

PLN '000

	Jun 30 2017 unaudited	31.12.2016	Jun 30 2016 unaudited
Investments			
Financial assets at fair value through profit or loss	37,607	41,211	41,589
Financial assets measured at amortised cost	1,378	2,077	2,203
Investment property	8,776	6,780	5,967
Loans advanced to related entities	141,303	112,908	3,477
Loans advanced to other entities	-	-	22,415
	<u>189,064</u>	<u>162,976</u>	<u>75,651</u>

PLN '000

Value of purchased debt portfolios as at Jan 1 2016	46,933
Cash recoveries	(56,744)
Revenue from debt purchase (interest and revaluation)	<u>53,099</u>
Value of purchased debt portfolios as at Dec 31 2016	<u>43,288</u>
Value of purchased debt portfolios as at Jan 1 2017	43,288
Cash recoveries	(27,825)
Revenue from debt purchase (interest and revaluation)	<u>23,522</u>
Value of purchased debt portfolios as at Jun 30 2017	<u>38,985</u>
Value of purchased debt portfolios as at Jan 1 2016	46,933
Cash recoveries	(30,166)
Revenue from debt purchase (interest and revaluation)	<u>27,025</u>
Value of purchased debt portfolios as at Jun 30 2016	<u>43,792</u>

6. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect

6.1. Revenue

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Revenue from debt purchase	23,522	27,025
Income from property	28	-2,262
Revenue from credit management	34,748	22,307
Revenue from other services	6,307	11,457
	64,605	58,527

Revenue from debt purchase

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	16,922	18,397
Revaluation of debt portfolios	6,600	8,628
	23,522	27,025

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Forecast revision	8,127	7,181
Change due to change in discount rate	(1)	8
Foreign currency gains	(1,526)	1,439
	6,600	8,628

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	16,645	17,692
Revaluation of debt portfolios	6,738	8,594
	23,383	26,286

Revaluation of debt portfolios measured at fair value

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Forecast revision	8,179	7,241
Change due to change in discount rate	(1)	8
Foreign currency gains	(1,440)	1,345
	6,738	8,594

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

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

- debtors' behaviour patterns and effectiveness of the collection tools applied;
- changes in currency exchange rates against PLN (for debt portfolios purchased abroad).

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

Revenue from debt portfolios measured at amortised cost

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest income adjusted for actual recoveries	277	705
Revaluation of debt portfolios	(138)	34
	139	739

Revaluation of debt portfolios measured at amortised cost

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Forecast revision	(52)	(60)
Foreign currency gains	(86)	94
	(138)	34

Pursuant to the accounting policies applied by the Company, income and gains on financial instruments at amortised cost are presented as revenue from purchased debt portfolios under operating income.

6.2. Employee benefits expense

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Salaries and wages	(45,235)	(36,522)
Other social security contributions	(2,768)	(3,019)
Old-age and disability pension contributions (defined contribution plans)	(6,458)	(4,721)
Equity-settled share-based payments	(4,025)	(3,861)
Contribution to the State Fund for the Disabled	(441)	(415)
	(58,927)	(48,538)

Details on the Management Stock Option Plan are presented in the Directors' Report.

6.3. Finance income

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Dividend income	36,101	-
Interest income on loans advanced	2,636	887
Interest income on bank deposits	132	93
Remeasurement of investments	10,347	-
Net foreign exchange gains	3,900	-
	<u>53,116</u>	<u>980</u>

6.4. Finance costs

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Interest expense on financial liabilities measured at amortised cost	(36,539)	(24,969)
Net foreign exchange gains	-	(1,220)
Remeasurement of investments	-	(19,401)
	<u>(36,539)</u>	<u>(45,590)</u>

6.5. Income tax

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Current income tax	-	-
Current income tax liability	-	-
Deferred income tax	974	(192)
Origination/reversal of temporary differences	974	(192)
Tax liability reported in the statement of profit or loss / in profit/(loss)	974	(192)

PLN '000

	Jan 1–Jun 30 2017 unaudited	Jan 1–Jun 30 2016 unaudited
Profit/(loss) before tax	(28,938)	(68,608)
Tax at the statutory 19% tax rate applicable in Poland (comparative period: 19%)	(5,498)	(13,036)
Fixed non-deductible expenses	6,472	12,844
Fixed non-taxable income	-	-
Tax calculated at the effective 19% tax rate (2014: 19%)	974	(192)

6.6. Investments in subsidiaries

		30.06.2017	
	Country	Gross value of shares	Impairment loss
PLN '000			
SeCapital S.à r.l.	Luxembourg	515,303	-
ERIF Business Solutions Sp. z o.o.	Poland	1,403	(1,302)
SeCapital Polska Sp. z o.o.	Poland	50	(50)
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	3,104	-
Novum Finance Sp. z o.o.	Poland	2,100	-
KRUK Romania S.r.l	Romania	79,732	-
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	18,500	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	72,204	(72,204)
InvestCapital Malta Ltd.	Malta	1,353,576	-
RoCapital IFN S.A.	Romania	13,887	-
Kruk Deustschland GmbH	Germany	60,996	(21,765)
KRUK Italia S.r.l	Italy	8,236	-
ItaCapital S.r.l	Italy	815	-
KRUK Espana S.r.l	Spain	9,225	-
ProsperoCapital S.à r.l.	Luxembourg	538	-
Credit Base International S.r.l	Italy	14,579	-
Espand Soluciones de Gestion S.L.	Spain	49,694	-
		2,204,242	(95,321)

In H1 2017, an impairment loss of PLN 20,552 thousand was recognised on the investment in KRUK Česká a Slovenská republika s.r.o.

In H1 2017, an impairment loss of PLN 21,748 thousand was recognised on the investment in Kruk Deustschland GmbH.

In H1 2017, an impairment loss of PLN 52,648 thousand on the investment in KRUK Romania S.r.l. was reversed.

6.7. Borrowings and finance lease liabilities

PLN '000

	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Non-current liabilities			
Secured and unsecured borrowings	161,087	94,661	87,396
Liabilities under debt securities (unsecured)	1,377,575	1,227,027	866,778
Finance lease liabilities	5,986	6,411	3,535
	<u>1,544,648</u>	<u>1,328,100</u>	<u>957,709</u>
Current liabilities			
Short-term portion of secured and unsecured borrowings	79,910	123,254	40,235
Liabilities under debt securities (unsecured)	33,854	138,074	192,356
Short-term portion of finance lease liabilities	5,602	5,198	4,042
Dividend liabilities	37,488	-	35,491
	<u>156,854</u>	<u>266,526</u>	<u>272,124</u>

	Currency	Nominal interest rate	Maturing in	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–3.0 pp; 1M EURIBOR + margin of 2.2–2.4 pp	2024	240,997	217,915	127,631
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.9–4.6 pp	2020	1,411,429	1,365,101	1,059,134
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.64–4 pp	2019	11,588	11,610	7,577
				<u>1,664,014</u>	<u>1,594,626</u>	<u>1,194,342</u>

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

As at Jun 30 2017

PLN '000

	Jun 30 2017 unaudited	Dec 31 2016	Jun 30 2016 unaudited
Assets			
Non-current assets			
Property, plant and equipment	20,457	21,019	15,408
Intangible assets	13,616	13,261	12,095
Investments in subsidiaries	2,108,921	1,940,043	1,529,502
Hedge derivatives	5,138		
Deferred tax asset	-	-	2,673
Total non-current assets	2,148,132	1,974,323	1,559,678
Current assets			
Inventories	69	188	240
Investments	189,064	162,976	75,651
Trade receivables from related entities	24,247	38,883	20,127
Trade receivables from other entities	3,083	3,301	3,907
Other receivables	15,825	15,292	9,746
Other assets	2,753	4,402	2,032
Cash and cash equivalents	25,660	162,936	12,050
Total current assets	260,701	387,978	123,753
Total assets	2,408,833	2,362,301	1,683,431
Equity and liabilities			
Equity			
Share capital	18,744	18,744	17,744
Share premium	288,326	288,326	77,766
Other capital reserves	80,684	76,659	72,818
Retained earnings	260,468	317,522	244,893
Total equity	652,384	701,251	413,221
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	1,544,648	1,328,100	957,709
Deferred tax liability	4,991	4,018	-
Total non-current liabilities	1,550,615	1,332,118	957,709
Current liabilities			
Current liabilities under borrowings and other debt instruments	156,854	266,527	272,124
Trade and other payables	31,043	39,152	23,692
Income tax payable	-	3,514	-
Employee benefit obligations	17,937	19,741	16,685
Deferred tax liability	4,991	4,018	-
Total current liabilities	205,834	328,934	312,501
Total liabilities	1,756,449	1,661,052	1,270,210

Total equity and liabilities

2,408,833	2,362,301	1,683,431
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6.9. Related-party transactions concluded by the Parent**Transactions with subsidiaries as at and for the period ended June 30th 2017****Balance of liabilities, receivables and loans as at the reporting date**

PLN '000	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
SeCapital S.à. r.l	1,535	974	-	-
ERIF Business Solutions Sp. z o.o.	-	22	-	-
Novum Finance Sp. z o.o.	434	42	-	-
SeCapital Polska Sp. z o.o.	-	1	70	8
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,285	971	1,500	30
KRUK Romania S.r.l	684	1,882	-	-
Rejestr Dłużników ERIF BIG S.A.	35	424	-	-
NSFIZ PROKURA	3,361	10,870	-	-
KRUK Česká a Slovenská republika s.r.o.	69	936	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	3,015	-	-
InvestCapital Malta Ltd.	-	144	-	877
KRUK Deutschland GmbH	-	510	-	-
KRUK Deutschland (Branch)	-	89	-	-
Rocapital IFN S.A.	-	7	-	-
KRUK Italia S.r.l.	-	226	-	-
KRUK Espana S.L.	-	302	-	-
ItaCapital S.r.l.	-	195	-	-
Presco S.a.r.l.	-	113	-	-
Presco NSFIZ	-	-	-	-
	7,403	20	1,570	915

Revenue from mutual transactions

PLN '000	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	726	-
ERIF Business Solutions Sp. z o.o.	36	-	-
Novum Finance Sp. z o.o. (in liquidation)	23	-	-
SeCapital Polska Sp. z o.o.	7	-	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	987	-	(272)
KRUK Romania S.r.l	1,521	-	-
Rejestr Dłużników ERIF BIG S.A.	337	-	-
NSFIZ PROKURA	33	-	-
KRUK Česká a Slovenská republika s.r.o.	759	-	150
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	15,839	-
InvestCapital Malta Ltd.	96	-	-
KRUK Deutschland GmbH	555	-	-

KRUK Deutschland (Branch)	114	-	-
Rocapital IFN S.A.	(63)	-	49
Prospero Capital Sp. z o.o.	7	-	-
KRUK Italia S.r.l.	223	-	-
KRUK Espana S.L.	296	-	-
ItaCapital S.r.l.	195	-	-
Presco S.a.r.l.	34	-	-
Presco NSFIZ	-	-	-
	5,177	16,565	(72)

Costs of mutual transactions

PLN '000

Purchase of services

ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,359
KRUK Romania S.r.l.	3,882
Rejestr Dłużników ERIF S.A.	166
KRUK Česká a Slovenská republika s.r.o.	209
InvestCapital Malta Ltd.	-
	5,617

Transactions with subsidiaries as at and for the period ended June 30th 2017**Balance of liabilities, receivables and loans as at the reporting date**

PLN '000

	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
SeCapital S.à. r.l	3,634	874	-	-
ERIF Business Solutions Sp. z o.o.	-	32	-	-
Novum Finance Sp. z o.o.	-	115	18,536	-
SeCapital Polska Sp. z o.o.	-	1	77	3
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,401	1,836	-	-
KRUK Romania S.r.l	679	679	105,945	1,041
Rejestr Dłużników ERIF BIG S.A.	73	279	-	-
NSFIZ PROKURA	2,504	14,826	-	-
KRUK Česká a Slovenská republika s.r.o.	332	3,276	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	3,731	-	-
InvestCapital Malta Ltd.	-	143	-	1,077
KRUK Deutschland GmbH	-	135	-	-
KRUK Deutschland (Branch)	-	40	-	-
Rocapital IFN S.A.	15	-	285	3
KRUK Italia S.r.l.	-	93	-	-
ItaCapital S.r.l.	-	163	-	-
KRUK Espana S.L.	-	92	-	-
Presco Investments S.a.r.l.	2,020	-	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	309	-	-
ProsperoCapital S.à r.l.	-	-	-	-

ProsperoCapital Sp. z.o.o. (in liquidation)	-	-	-	-
Credit Base International S.r.l	-	212	1,683	6
Espand Soluciones de Gestion S.L.	-	264	-	-
	10,658	27,098	126,526	2,130

Revenue from mutual transactions

PLN '000	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	276	-
ERIF Business Solutions Sp. z o.o.	36	-	13
Novum Finance Sp. z o.o.	294	-	-
SeCapital Polska Sp. z o.o.	5	-	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,065	-	3,674
KRUK Romania S.r.l	887	-	1,891
Rejestr Dłużników ERIF BIG S.A.	422	-	-
NSFIZ PROKURA	33	-	-
KRUK Česká a Slovenská republika s.r.o.	281	-	605
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	22,338	-
InvestCapital Malta Ltd.	679	-	32,428
KRUK Deutschland GmbH	453	-	-
KRUK Deutschland (Branch)	109	-	-
Rocapital IFN S.A.	-	-	-
ProsperoCapital Sp. z.o.o. (in liquidation)	4	-	1
KRUK Italia S.r.l.	227	-	-
ItaCapital S.r.l.	196	-	-
KRUK Espana S.L.	288	-	-
Presco Investments S.a.r.l.	-	6,549	-
P.R.E.S.C.O INVESTMENT I NS FIZ	18	-	-
ProsperoCapital S.à r.l.	-	-	-
Credit Base International S.r.l	-	-	86
	4,996	29,163	38,699

Costs of mutual transactions

PLN '000

	Purchase of services
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	871
KRUK Romania S.r.l	4,175
Rejestr Dłużników ERIF BIG S.A.	135
KRUK Česká a Slovenská republika s.r.o.	219
	5,399

7. Fair value

PLN '000		Jun 30 2017 unaudited		Dec 31 2016	
	Notes	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	5	37,607	37,607	41,211	41,211
Hedge derivatives		5,138	5,138	-	-
		42,745	42,745	41,211	41,211
Financial assets and liabilities not measured at fair value					
Financial assets measured at amortised cost	5	1,378	1,246	2,077	1,731
Investment property	5	8,776	8,776	6,780	6,780
Loans and receivables	5	184,458	184,458	112,908	112,908
Secured bank borrowings	6.7	(240,997)	(240,997)	(217,915)	(217,915)
Unsecured bonds in issue	6.7	(1,411,429)	(1,414,181)	(1,365,101)	(1,366,204)
Finance lease liabilities	6.7	(11,588)	(11,588)	(11,610)	(11,610)
Trade and other payables		(31,043)	(31,043)	(39,152)	(39,152)
		(1,500,445)	(1,503,329)	(1,512,013)	(1,513,462)

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

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

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

In 2014–2017, no transfers were made between the levels.

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

The Company did not make any transfers between fair value levels.

Hierarchy of financial instruments – Level 2

PLN '000				
	Jun 30 2017 unaudited	-	Level 2	Total
Hedge derivatives			5,138	5,138
Total			5,138	5,138

PLN '000				
	Dec 31 2016	-	Level 2	Total
Hedge derivatives			-	-
Total			-	-

In 2017, the Company and Bank Zachodni WBK S.A. entered into two cross currency interest rate swap contracts ("CIRS"). 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:

- A contract executed on January 9th 2017 hedges the 3M WIBOR-linked coupon on bonds with a nominal value of PLN 100m. The Company pays at a fixed rate of 3.06%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on June 4th 2021. On that day, the Company will receive PLN 100m from BZ WBK and will pay EUR 22.8m to BZ WBK.
- A contract executed on January 13th 2017 hedges the 3M WIBOR-linked coupon on bonds with a nominal value of PLN 90m. The Company pays at a fixed rate of 2.97%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on November 10th 2021. On that day, the Company will receive PLN 90m from BZ WBK and will pay EUR 20.6m to BZ WBK.

The fair value of CIRS transactions is measured on the basis of future cash flows from transactions, calculated based on the difference between the forecasted 3M WIBOR and the 3M WIBOR on the transaction date. To determine the fair value, the Group applies a 3M WIBOR forecast provided by a third party.

Hierarchy of financial instruments – Level 3

PLN '000				
	Jun 30 2017 unaudited	-	-	Level 3
Financial instruments at fair value through profit or loss				37,607
Financial assets measured at amortised cost				2,086
Total				39,693

PLN '000				
	Dec 31 2016	-	-	Level 3
Financial instruments at fair value through profit or loss				41,211
Financial assets measured at amortised cost				1,731
Total				42,942

Assumptions made for the valuation of debt portfolios are presented in Note 11 to the consolidated financial statements.

8. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance

As at June 30th 2017, the Company's investments in debt portfolios accounted for 1.6% of its assets. Equity accounted for 27% of the financing for the Company's operations.

9. Issue, redemption and repayment of non-equity and equity securities

On April 13th 2017, the KRUK Management Board passed resolutions to issue up to 20,000 Series AE1 bonds. The Company resolved to issue up to 20,000 unsecured Series AE1 bearer bonds with a nominal value of EUR 1,000 per bond, maturing 60 months after the allotment date.

On May 26th 2017, the KRUK Management Board passed resolutions to issue up to 20,000 Series AE2 bonds. The Company resolved to issue up to 20,000 Series AE2 unsecured bearer bonds with a nominal value of EUR 1,000 per bond, maturing 60 months after the allotment date.

On July 3rd 2017, KRUK S.A. and subsidiary InvestCapital Malta 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. Other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

10. Dividends paid (or declared)

On March 28th 2017, the Management Board of KRUK S.A. passed a resolution to recommend to the Parent's Annual General Meeting distribution of dividend of PLN 2 per share to KRUK S.A. shareholders from the net profit earned by the Company in 2016 and increased by an amount transferred from statutory reserve funds.

The recommendation on dividend payment and dividend amount was prepared taking into account the KRUK Group's current financial condition as well as its further growth strategy, plans and prospects. The Management Board may recommend distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial condition.

In its resolution, effective as of March 31st 2017, on the assessment of the Management Board's proposal on distribution of KRUK S.A.'s net profit for 2016 and evaluation of the dividend recommendation, the Supervisory Board approved the proposals.

On May 15th 2017, the Annual General Meeting decided to allocate all of the Company's net profit for 2016 for dividend payments to the shareholders and to pay them a dividend of PLN 2.00 per share. The dividend was paid from the Company's net profit of PLN 4,212,086.30 for 2016 and retained earnings of PLN 33,276,345.70

on July 5th 2017.

11. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance

After the end of the first six months of 2017, there were no events with a potentially material bearing on the Company's future performance other than those presented in the interim financial statements.

12. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

The information is presented in note 16 of the condensed interim consolidated financial statements.

Piotr Krupa
*President of the
Management Board*

Agnieszka Kulon
*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*

Katarzyna Raczkiewicz
*Person responsible for maintaining
the accounting records
Wrocław, September 5th 2017*

IV. Activity report

1. Effects of changes in the structure of the Group, including through business combinations, acquisitions or divestments of Group entities, long-term investments, divisions, restructurings or discontinuation of operations

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

2. Management Board's position on the feasibility of meeting previously published forecasts for the financial year

The Management Board of KRUK S.A. did not publish any forecasts concerning the performance of KRUK S.A. or its Group.

Shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting of the Company as at the report issue date, and changes in major holdings of Company shares since the issue of the previous report

As at the issue date of the previous report, i.e. April 27th 2017

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,955,841	10.43	1,955,841	10.43%
NN PTE***	1,992,000	10.63	1,992,000	10.64%
Aviva OFE**	1,100,000	5.87	1,100,000	5.87%
Generali OFE**	1,065,000	5.68	1,065,000	5.68%

(*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on November 29th 2016.

As at the date of issue of this interim report

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,927,427	10.28	1,927,247	10.28
NN PTE*	2,100,000	11.2	2,100,000	11.2
Aviva OFE*	1,149,000	6.13	1,149,000	6.13

(*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on May 15th 2017.

Information on changes in the structure of major holdings

On May 9th 2017, the Company received a notification from Piotr Krupa, given under Art. 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 10,594 shares in KRUK S.A. for an average price of PLN 301.29 per share on May 4th 2017, 8,000 shares in KRUK S.A. for an average price of PLN 294.40 per share on May 5th 2017, and 10,000 shares in KRUK S.A. for an average price of PLN 294.80 per share on May 8th 2017.

On June 23rd 2017, KRUK S.A. received the following notification of share disposal from Generali Powszechne Towarzystwo Emerytalne S.A., with its registered office at ul. Postępu 15B, 02-676 Warsaw, Poland: "In compliance with the notification requirement under Art. 69 in conjunction with Art. 87.1.3.b. of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz.U. of 2016, item 1639) (the "Act on Public Offering"), Generali Powszechne Towarzystwo Emerytalne S.A., the management company of Generali Otwarty Fundusz Emerytalny and Generali Dobrowolny Fundusz Emerytalny (jointly the "Funds"), with its registered office at ul. Postępu 15B, Warsaw, Poland, hereby notifies KRUK S.A. that the Funds decreased their share in total voting rights at KRUK S.A. (the "Company") to less than 5% of total voting rights at the Company.

The Funds' share in total voting rights at the Company decreased following the sale of shares on June 20th 2017.

Prior to the change, the Funds held 939,238 shares, representing 5.01% of the Company's share capital, and 939,238 votes, representing 5.01% of total voting rights at the Company's General Meeting.

Following the change in the shareholding, the Funds held 925,238 shares in KRUK S.A., representing 4.94% of the Company's share capital, and 925,238 votes, representing 4.94% of total voting rights at the Company's General meeting.

No subsidiaries of the Funds hold any shares in the Company, and no such persons exist as are referred to in Art. 87.1.3.c. of the Act on Public Offering.

As calculated in accordance with Art. 69b.2. of the Act on Public Offering, there are no voting rights attached to shares which the Funds would be entitled or obliged to purchase as holders of financial instruments referred to in Art. 69b.1.1. and Art. 69b.1.2. of the Act on Public Offering and not exercised exclusively through cash settlement.

As calculated in accordance with Art. 69b.3. of the Act on Public Offering, there are no voting rights attached to shares which are directly or indirectly related to the financial instruments referred to in Art. 69b.1.2. of the Act on Public Offering.

Calculated in accordance with Art. 69.4.9., the total number of votes is 939,238, representing 5.01% of total voting rights.”

3. Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this interim report, and changes in their holdings after the issue of the previous report

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,927,247
Agnieszka Kułton	Member of the Management Board	45,000
Urszula Okarma	Member of the Management Board	107,001
Iwona Słomska	Member of the Management Board	36,750
Michał Zasępa	Member of the Management Board	31,391
Tomasz Bieske	Member of the Supervisory Board	642

Apart from the change in the number of shares held by Piotr Krupa, President of the Management Board, in the period from the issue of the previous quarterly report (the extended consolidated report for Q1 2017, issued on April 27th 2017) to the date of issue of this interim report, there were also changes in the number of Company shares held by Iwona Słomska, Agnieszka Kułton, and Michał Zasępa.

On May 9th 2017, the Company received a notification from Iwona Słomska, given under Art. 19 of the MAR. According to the notification, Iwona Słomska had sold, in ordinary session trades on the Warsaw Stock Exchange, 32 shares in KRUK S.A. for an average price of PLN 240.00 per share on March 17th 2017 and 4,328 shares in KRUK S.A. for an average price of PLN 294.50 per share on May 4th 2017.

On May 15th 2017, the Company received a notification from Michał Zasępa, given under Art. 19 of the MAR. According to the notification, Michał Zasępa had sold, in ordinary session trades on the Warsaw Stock Exchange, 992 shares in KRUK S.A. for an average price of PLN 310.83 per share on May 11th 2017 and 3,000 shares in KRUK S.A. for an average price of PLN 316.17 per share on May 12th 2017.

On May 18th 2017, the Company received a notification from Agnieszka Kułton, given under Art. 19 of the MAR. According to the notification, on May 16th 2017 Agnieszka Kułton had sold, in ordinary session trades on the Warsaw Stock Exchange, 6,000 shares in KRUK S.A. for an average price of PLN 306.15 per share.

After the reporting date, on July 20th 2017, the Company received a notification from Agnieszka Kułton, given under Art. 19 of the MAR. According to the notification, on July 19th 2017 Agnieszka Kułton had sold, in ordinary session trades on the Warsaw Stock Exchange, 5,000 shares in KRUK S.A. for an average price of PLN 317.93 per share.

To the best of the Company's knowledge, the other Supervisory Board members did not hold any Company shares or rights to Company shares in the period from the issue of the previous interim report, i.e. the extended consolidated report for Q1 2017 issued on April 27th 2017, to the date of issue of this report.

Incentive scheme at KRUK S.A.

Incentive scheme for 2015–2019

The incentive scheme for 2015–2019 was adopted under Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014, (2015–2019 Incentive Scheme).

The 2015–2019 Incentive Scheme is the second incentive plan operated by the KRUK Group. Details of the previous 2011–2014 Incentive Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015–2019 Incentive Scheme is addressed to the key management personnel of the Parent and Group companies. Under the 2015–2019 Incentive Scheme, 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 Incentive Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, grows, on an annualised average basis, by no less than 13% relative to the base year.

Details of the 2015–2019 Incentive Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2016.

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

Tranche 1

On June 9th 2016, the Supervisory Board declared, by way of resolution, that the condition set forth in the Stock Option Scheme for offering subscription warrants under Tranche I for 2015 had been met. On June 17th 2016, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015–2019 Stock Option Scheme.

Acting under the resolution, on June 22nd 2016, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 1 subscription warrants. As a result, 86,435 subscription warrants were delivered to the eligible persons on July 1st 2016.

On August 27th 2016, the Company's Management Board passed a resolution to determine the list of Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015–2019 Stock Option Scheme, which was later amended by the Management Board resolution of October 24th 2016. On this basis, the Supervisory Board invited the eligible Management Board members to acquire Tranche 1 subscription warrants under the 2015–2019 Stock Option Scheme. On October 27th 2016, 20,000 subscription warrants were delivered to the eligible Management Board members.

Tranche 2

By way of resolution effective as of June 5th 2017, the Supervisory Board declared that the condition set forth in the Stock Option Scheme for offering subscription warrants under Tranche II for 2016 had been met.

On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche II subscription warrants for 2016 under the 2015–2019 Stock Option Scheme.

Acting under the resolution, on July 4th 2017, the Management Board invited the eligible persons other than Management Board members to acquire Tranche II subscription warrants. 91,467 subscription warrants were delivered to the eligible persons on July 7th 2017.

On August 27th 2016, the Company's Management Board passed a resolution to determine the list of Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015–2019 Stock Option Scheme, which was later amended by the Management Board resolution of October 24th 2016. On this basis, the Supervisory Board invited the eligible Management Board members to acquire Tranche 1 subscription warrants under the 2015–2019 Stock Option Scheme. On October 27th 2016, 20,000 subscription warrants were delivered to the eligible Management Board members.

The Company's Management Board members hold no rights to KRUK shares other than those attached to the subscription warrants presented below.

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 of PLN 2.00 per share.

Under the relevant 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.

Number of warrants held by Management Board members as at June 30th 2017

Name and surname	Position	Number of warrants held under Tranche 1 for 2015	Number of warrants held under Tranche 2 for 2016
Piotr Krupa	CEO and President of the Management Board	7,000	10,820
Agnieszka Kułton	Member of the Management Board	3,250	9,915
Urszula Okarma	Member of the Management Board	3,250	9,915
Iwona Słomska	Member of the Management Board	3,250	9,915
Michał Zasępa	Member of the Management Board	3,250	9,915

4. Litigation, arbitration or administrative proceedings

Cases with the highest value of claim, not exceeding 10% of KRUK S.A.'s equity

liabilities – 5 largest cases

<i>Subject matter</i>	<i>Value of claim [PLN]*</i>	<i>Date instigated</i>	<i>parties to the proceedings</i>	<i>Kruk S.A.'s position</i>
action for declaring that the agreement contains prohibited clauses and for voiding the agreement	PLN 39,127,624.09	2017/01/12	Negru Danut	We expect the claim for voiding the agreement to be dismissed, but are unable to predict the court's decision regarding the action for declaring that the agreement contains prohibited clauses
action for declaring that the agreement contains prohibited clauses and for voiding the agreement	PLN 28,821,588.05	2016/04/20	Petrea Marius	We expect the claim for voiding the agreement to be dismissed, but are unable to predict the court's decision regarding the action for declaring that the agreement contains prohibited clauses
action for declaring that the agreement contains prohibited clauses and for voiding the agreement	PLN 27,209,852.01	2010/11/24	Gurau Anca	We expect the claim for voiding the agreement to be dismissed, but are unable to predict the court's decision regarding the action for declaring that the agreement contains prohibited clauses
action for declaring that the agreement contains prohibited clauses and for voiding the agreement	PLN 15,442,379.30	2016/12/21	Vlasie Viorica Aurelia	We expect the claim for voiding the agreement to be dismissed, but are unable to predict the court's decision regarding the action for declaring that the agreement contains prohibited clauses
action for declaring that the agreement contains prohibited clauses and for voiding the agreement	PLN 7,380,638.25	2016/11/23	Ariciu Constantin	We expect the claim for voiding the agreement to be dismissed, but are unable to predict the court's decision regarding the action for declaring that the agreement contains prohibited clauses

claims – 5 largest cases

<i>Subject matter</i>	<i>Value of claim [PLN]*</i>	<i>Date instigated</i>	<i>parties to the proceedings</i>	<i>Kruk S.A.'s position</i>
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bankruptcy proceedings	PLN 31,525,232.79	2015/02/26	Prokura NSFIZ	We expect partial satisfaction of claims
bankruptcy proceedings	PLN 30,828,937.83	2011/03/17	Prokura NSFIZ	The case is pending, it is difficult to assess whether the claim will be paid
bankruptcy proceedings	PLN 26,548,918.49	2016/02/11	KRUK Romania S.r.l	We expect partial satisfaction of claims
bankruptcy proceedings	PLN 26,600,748.05	2013/03/13	InvestCapital Malta Ltd.	We expect partial satisfaction of claims
bankruptcy proceedings	PLN 25,250,331.59	2007/03/16	InvestCapital Malta Ltd.	We expect partial satisfaction of claims

The cases presented above are cases with the largest value of claims from among all court proceedings in which the Group is involved on a mass scale as part of its debt collection business.

Given the nature of the Group's business, placing assets under court proceedings is a typical step in the debt recovery process, provided for in the Group's operating procedures, and the related risk is taken into account in the fair value measurement of the debts.

(*) The value of the claim is based on the nominal value of debts, purchased by the Group for a considerably lower value.

Total number of court cases as at June 30th 2017

	<i>Total number of cases</i>	<i>Total amount (PLN)</i>
Total number of court proceedings (including bankruptcy proceedings) instigated by the Group companies and total value of the Group's claims	626,124	16,447,046,573
Total number of enforcement proceedings instigated by the Group and total value of claims	1,264,693	20,110,937,929
Total number of court proceedings instigated against the Group and total value of claims	7,168	361,741,993

5. Sureties for repayment of loans and guarantees issued by KRUK S.A. or its subsidiary

In the reporting period, neither KRUK S.A. nor any of the Group companies issued any sureties or guarantees for repayment of loans to other business entities.

6. The Group's material achievements or failures in the reporting period, along with the most significant events related to such achievements or failures

In the area of marketing activities, the KRUK Group recorded the following achievements:

- Our marketing and PR activities at the beginning of a year focus on developing the final version of the strategic plans and objectives we wish to achieve in the coming quarters. By initiating media campaigns and creating a positive image of the Group, we aim to increase the value of the Company and the KRUK brand. We are committed to promoting the amicable settlement strategy among our current and future clients by highlighting its benefits in our communication with trading partners, journalists, and industry representatives. One of our top priorities, inspired by the findings of social research, is financial education of debtors and their environment. A survey commissioned by the KRUK Group shows that over the past three years as many as 48% Poles have taken out a loan. They are second only to Romanians, 56% of whom have incurred such debts. By contrast, in the Mediterranean countries people have been less likely to take out a loan, with only 24% of Spaniards and Italians deciding to do so. In Germany, the rate is even lower (20%), confirming that our mission to educate the public on financial matters and sustainable household budget management is important.
- As regards our public relations activities, in January we officially launched a press conference in Madrid, where we met key journalists from the Spanish media. Our communication centers around the uniqueness of our amicable settlement strategy and inclusion of the Espand Group into the KRUK Group structure. The journalists responded with genuine interest in our business model and extra communication efforts to educate clients financially. The press conference was aimed at raising journalists' awareness of KRUK's presence in Spain and of the new quality standard the Company is setting on that market.

- March 15th is the World Consumer Rights Day, celebrated each year. It provided us with an opportunity to support the communication efforts of ERIF Biuro Informacji Gospodarczej, a credit reference agency. We conducted a dedicated survey which revealed that close to half of Poles assess their awareness of consumer rights as average. Only one out of seven checks the solvency of a company before entering into cooperation, with more than 70% never using the services of credit reference agencies to establish the reliability of a potential business partner. To remedy a violation of their rights, the vast majority of Poles would primarily seek help from their local consumer ombudsman, who would be the preferred institution for 53% of the respondents when being refused a refund on a complaint. 25% of them would turn for advice to the Office of Competition and Consumer Protection, while every 10th person to the Consumer Information Centre. Only 3% would seek help from a lawyer.
- In January, ERIF Biuro Informacji Gospodarczej was the official sponsor of the Loan Magazine Awards Gala 2016. The event was attended by representatives of the largest lending and financial institutions in Poland. The highlight of the evening was the presentation of awards and distinctions to entities which last year stood out for their activity on the FinTech market in Poland, thus significantly contributing to its development. The Loan Magazine Awards 2016 gathered nearly 150 guests and proved to be a very successful event for the entire FinTech sector in Poland.
- The second quarter saw the Group organising spring conferences, including the latest editions of our conferences for the insurance industry and bailiffs. During the two-day ERIF Forum, our business partners had plenty of opportunity to learn about and be inspired by the economic information exchange market. At the Wrocław Women's Forum, Magdalena Janocka, a representative of the KRUK Group, and Dominika Nawrocka, author of the kobietapieniadze.pl blog, debated whether the world of finance is women's domain and what role finance plays in our personal lives. In Brno, the Czech Republic, we had the pleasure of hosting our business partners at another sales conference held by KRUK Česká a Slovenská republika.

7. Other information relevant to the assessment of the staffing levels, assets, financial condition and financial performance, or changes in any of the foregoing, and information relevant to the assessment of the Company's ability to meet its obligations

In the Company's opinion, there is no information – other than the information disclosed above – relevant for the assessment of the staffing levels, assets, financial condition and financial performance of KRUK S.A. or the KRUK Group, or for the assessment of the Company's or the Group's ability to meet their liabilities.

Headcount at the KRUK Group as at June 30th 2017

2,877

Headcount at the KRUK Group as at June 30th 2016

2.346

8. Factors with a potential bearing on the Group's results in the next quarter or in a longer term

Due to the expected future changes in tax law in Europe and Poland, the Management Board of KRUK SA expects that since 2018 the effective tax rate for the Capital Group may increase significantly.

9. Statement of the Management Board

These interim condensed financial statements and comparative data have been prepared in accordance with the applicable accounting standards and give a true and fair view of the financial position and assets of the Group as well as of its development, achievements and situation, including a description of key risks and threats.

The entity qualified to audit financial statements which reviewed these interim condensed financial statements was selected in compliance with applicable laws and regulations and met the conditions for issuing an objective and independent review report in accordance with applicable laws and professional standards.

Piotr Krupa
*President of the
Management Board*

Agnieszka Kulon
*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*