The Kruk Group

Consolidated financial statements for the financial year ended December 31st 2012

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

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Consolidated statement of financial position

As at Dec 31 2012
PLN '000

	Note	**31.12.2012**	**31.12.2011**
Assets			
Non-current assets			
Property, plant and equipment	*13*	17,209	14,326
Other intangible assets	*14*	7,646	6,651
Goodwill	*15*	1,024	1,024
Deferred tax assets	*17*	1,603	1,837
Total non-current assets		27,482	23,838
Current assets			
Inventories	*18*	879	537
Investments	*16*	880,012	721,928
Trade receivables	*19*	12,019	12,804
Income tax receivables		767	-
Other receivables	*19*	5,160	3,354
Prepayments and accrued income		2,382	1,800
Cash and cash equivalents	*20*	42,729	36,205
Total current assets		943,948	776,628
Total assets		971,430	800,466
Equity and liabilities			
Equity	*21*		
Share capital		16,900	16,900
Share premium		45,107	45,107
Exchange differences on translating foreign operations		(3,774)	330
Other capital reserves		45,711	43,365
Retained earnings		213,532	132,493
Equity attributable to owners of the parent		317,476	238,195
Non-controlling interests		156	188
Total equity		317,632	238,383
Non-current liabilities			
Non-current liabilities on borrowings and other debt instruments	*23*	409,179	339,497
Total non-current liabilities		409,179	339,497
Current liabilities			
Current liabilities on borrowings and other debt instruments	*23*	187,204	137,503
Trade and other payables	*26*	38,508	66,947
Current tax payable		-	660
Employee benefit obligations	*24*	18,643	17,212
Current provisions	*25*	264	264
Total current liabilities		244,619	222,586
Total liabilities		653,798	562,083
Total equity and liabilities		971,430	800,466

Consolidated income statement

For the year ended December 31st 2012
PLN '000

	Note	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Revenue	*7*	342,992	274,031
Other income	*8*	2,516	1,367
Salaries and Employee benefits expense	*10*	(87,813)	(70,519)
Depreciation and amortisation expense		(7,335)	(5,427)
Third-party services		(46,263)	(46,838)
Other expenses	*9*	(67,424)	(56,619)
		(208,835)	(179,403)
Operating profit		136,673	95,995
Finance income	*11*	1,232	2,934
Finance costs	*11*	(52,811)	(30,383)
Net finance expenses		(51,579)	(27,449)
Pre-tax profit		85,094	68,546
Income tax	*12*	(3,900)	(2,154)
Net profit for the period		81,194	66,392
Net profit attributable to:			
Owners of the parent		81,039	66,205
Non-controlling interests		155	187
Net profit for the period		81,194	66,392
Earnings/(loss) per share			
Basic (PLN)	*22*	4.80	4.03
Diluted (PLN)	*22*	4.78	4.03

Consolidated statement of comprehensive income

For the year ended December 31st 2012
PLN '000

	Note	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Net profit for the period		81,194	66,392
Other comprehensive income			
Exchange differences on translating foreign operations		(4,104)	(55)
Other comprehensive net income for the period		(4,104)	(55)
Total comprehensive income for the period		77,090	66,337
Total comprehensive income attributable to:			
Owners of the parent		76,935	66,150
Non-controlling interests		155	187
Total comprehensive income for the period		77,090	66,337

Consolidated statement of changes in equity

For financial year ended December 31st 2012 *(PLN '000)*

	Note	Share capital	Share premium	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Equity as at Jan 1 2011		15,309	5,308	385	2,967	106,288	130,257	42	130,299
Comprehensive income for the period									
Net profit for the period		-	-	-	-	66,205	66,205	187	66,392
Other comprehensive income									
- Exchange differences on translating foreign operations		-	-	(55)	-	-	(55)	-	(55)
Total comprehensive income for the period		-	-	(55)	-	66,205	66,150	187	66,337
Contributions from and distributions to owners									
- Payment of dividend				-	-	-	-	(41)	(41)
- Issue of treasury shares		1,591	39,799	-	(492)	-	40,898	-	40,898
- Share-based payments		-	-	-	890	-	890	-	890
- Designation of capital reserve		-	-	-	40,000	(40,000)	-	-	-
Contributions from and distributions to owners		1,591	39,799	-	40,398	(40,000)	41,788	(41)	41,747
Total equity as at Dec 31 2011		16,900	45,107	330	43,365	132,493	238,195	188	238,383
Equity as at Jan 1 2012		16,900	45,107	330	43,365	132,493	238,195	188	238,383
Comprehensive income for the period									
Net profit for the period		-	-	-	-	81,039	81,039	155	81,194
Other comprehensive income									
- Exchange differences on translating foreign operations		-	-	(4,104)	-	-	(4,104)	-	(4,104)
Total comprehensive income for the period		-	-	(4,104)	-	81,039	76,935	155	77,090
Contributions from and distributions to owners									
- Payment of dividend		-	-	-	-	-	-	(187)	(187)
- Share-based payments	*21*	-	-	-	2,346	-	2,346	-	2,346
Contributions from and distributions to owners		-	-	-	2,346	-	2,346	(187)	2,159
Total equity as at Dec 31 2012		16,900	45,107	(3,774)	45,711	213,532	317,476	156	317,632

Consolidated statement of cash flows

For the year ended December 31st 2012

PLN '000

	Note	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Cash flows from operating activities			
Net profit for the period		81,194	66,392
Adjustments			
Depreciation of property, plant and equipment	*13*	4,723	3,640
Amortisation of intangible assets	*14*	2,612	1,787
Net finance costs		43,126	25,386
(Gain)/ loss on sale of property, plant and equipment		(259)	(129)
Equity-settled share-based payment transactions		2,346	890
Income tax		3,900	2,128
Change in other investments		(3,293)	-
Change in debt portfolios purchased	*16*	(154,791)	(455,458)
Change in inventories		(342)	(79)
Change in receivables		(1,021)	(4,621)
Change in prepayments and accrued income		(582)	(74)
Change in current trade and other payables		(28,439)	17,768
Change in employee benefit obligations		1,431	3,167
Change in provisions		-	90
Income tax paid		(5,103)	(1,717)
Net cash flows from operating activities		(54,498)	(340,830)
Cash flows from investing activities			
Interest received		1,232	2,705
Loans advanced		-	(6,350)
Sale of intangible assets and property, plant and equipment		496	271
Purchase of intangible assets and property, plant and equipment		(7,532)	(8,182)
Repayment of loans advanced		-	4,603
Net cash flows from investing activities		(5,804)	(6,954)
Cash flows from financing activities			
Net proceeds from share issue		-	40,898
Proceeds from notes issue		190,000	291,000
Increase in borrowings		369,600	192,579
Repayment of borrowings		(320,232)	(100,691)
Payments under finance lease agreements		(2,169)	(3,199)
Non-controlling interests		(187)	(41)
Redemption of notes		(120,660)	(30,000)
Interest paid		(49,536)	(27,332)
Net cash flows from financing activities		66,816	363,213
Total net cash flows		6,524	15,429
Cash and cash equivalents at beginning of the period		36,205	20,776
Cash at end of period	*20*	42,729	36,205

Due to the limited amount of information on revenue from debt collection and spending on debt portfolio purchases, this consolidated statement of cash flows should be read in conjunction with the information contained in Note 16 to these consolidated financial statements.

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Notes to the consolidated financial statements

1. Parent

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

Registered office:
ul. Legnicka 56
54-204 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

Description of business of the Parent and subsidiaries
The business of the Parent and its subsidiaries consists primarily in the restructuring and recovery of debts purchased by the Group companies and debts held by financial institutions and other clients.

Until April 30th 2012, the Parent also provided loans to private individuals. As from May 1st 2012, this activity was transferred to a subsidiary, NOVUM Finance Sp. z o.o.

Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. ("RD ERIF BIG S.A."), a subsidiary of Kruk S.A., is a credit information agency providing credit information on consumers and businesses which is stored and administered by RD ERIF BIG S.A.

These consolidated financial statements for the reporting period ended December 31st 2012 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

The Parent is KRUK S.A. A list of the subsidiaries is presented in Note 30.

2. Preparation of consolidated financial statements

a) Statement of compliance

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

These consolidated financial statements were approved by the Management Board of the Parent (the "Management Board") on March 13th 2013.

b) Basis of preparation

These consolidated financial statements have been prepared for the reporting period of January 1st - December 31st 2012. Comparative data is presented as at December 31st 2011 and for the period January 1st - December 31st 2011.

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

- financial instruments valued at fair value through profit or loss

The methods of measuring fair value are presented in Note 4.

c) Functional currency and presentation currency

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

d) Accounting estimates and judgements

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

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

For information on judgements concerning the application of accounting policies, which most significantly affect the values presented in the financial statements, see the following notes:

- Note 3C)(i) Investments

As of July 1st 2012, a compartment (or a distinct part of business for which separate accounting is maintained) was established within subsidiary Secapital S.a.r.l, whose purpose is to purchase debt portfolios denominated in the Romanian Leu (RON). The decision was made based on the prevailing economic conditions, in order to reflect the actual economic transactions, developments and factors in the most precise manner possible. A significant portion of debt portfolios purchased by the Group, and hence cash inflows and revenues, is denominated in RON.

This approach is consistent with IAS 21 which requires each individual entity preparing separate financial statements to determine its functional currency, being the currency in which the majority of its cash flows are generated, and measure its results, assets and financial position in that currency.

For information on any judgements and estimates which are related to material risk and may require significant corrections in the financial statements for the following year, see the following notes:

- Note 16 Current investments
- Note 27 Financial instruments

3. Significant accounting policies

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

a) Basis of consolidation

(i) Business combinations

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

Control is defined as the ability to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In its assessment of whether control is exercised, the Group takes into account the voting rights which may be exercised as at the assessment date. The date of business combination is the day on which the acquirer takes control of the acquiree. The date of business combination is determined and the fact of assuming control of the acquiree by the acquirer are acknowledged by way of a judgement.

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Consolidation adjustments

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

b) Foreign currencies

(i) Foreign currency transactions

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

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

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

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

Currency-translation differences are recognised in profit or loss for the given period. Non-monetary items measured at historical cost in a foreign currency are translated at the relevant exchange rate at the date of the transaction

(ii) Translation of foreign operations

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

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

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

c) Financial instruments

(i) Financial instruments other than derivative instruments

Loans, receivables and bank deposits are recognised at the date of origination. All other financial assets (including assets measured at fair value through profit or loss) are recognised at the transaction date, on which the Group becomes a party to a mutual liability pertaining to a given financial instrument.

The Group ceases to disclose a financial asset upon the expiry of the Group's contractual rights to cash flows from that asset or upon the transfer of those rights in a transaction transferring substantially all material risks and benefits relating to the ownership of the asset. Each interest in the transferred financial asset which is created or remains to be owned by the Group is disclosed as a separate asset or liability.

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

The Group holds the following financial instruments other than financial derivatives: financial assets at fair value through profit or loss, financial assets held to maturity, loans, receivables and financial liabilites.

Financial assets at fair value through profit or loss

Financial assets are classified as an investment measured at fair value through profit or loss if they are held for sale or were designated as measured at fair value through profit or loss at their initial recognition. Financial assets are designated as measured at fair value through profit or loss if the Group actively manages such investments and adopts decisions concerning their purchase or sale based on their fair value. At initial recognition, transaction cost relating to an investment is recognised as profit or loss of the period at the time it is incurred. All profits or losses relating to such investments are recognised as profit or loss of the period.

Purchased debt portfolios

Purchase debt portfolios comprise mass overdue consumer 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 the nominal value of the debt. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages the portfolios and the Group's results of operations are assessed based on their fair value.

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 purchased debt portfolios at least four times in a given annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio is determined, as at the measurement date, on the basis of a reliably estimated fair value calculated using an estimation model relying on discounted cash flows. A debt portfolio contains a large number of debt items. Each purchased debt portfolio is divided into sub-portfolios with similar parameters (type, nominal value, delinquency period), and separate cash flows are estimated for each sub-portfolio.

Discount rates applied to expected cash flows reflect the credit risk relating to a given portfolio. At initial recognition, the discount rate is the internal rate of return reflecting purchase price and estimated inflow 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 the principal amount and interest determined using the discount rate. Recovered principal is recognised as 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 payments are recognised in "interest income adjusted by actual payments".

The Group purchased debt portfolios are presented as current assets due to the fact that they are implemented within the normal operating cycle of the Group and include almost exclusively as overdue receivables.

Loans and receivables

Loans and receivables are financial assets with determined or determinable payments, but not listed on any active market. Such assets are initially recognised at fair value plus directly attributable transaction cost. Subsequently, loans and receivables are measured at amortised cost with the use of the effective interest rate method, less impairment losses, if any.

The Group also discloses cash and cash equivalents, as well as trade receivables under loans, trade receivables.

Cash and cash equivalents comprise cash at hand and cash at banks on call deposit accounts with initial maturities of up to three months. Balance of cash and cash equivalents disclosed in the consolidated statement of cash flows comprises the above-specified cash and cash equivalents, less unpaid overdraft facilities, which form an integral component of the Group's cash management system.

Financial liabilities other than derivative instruments

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

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

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

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

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

(ii) Equity

Ordinary shares

Ordinary shares are recognised under equity. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

Gain or loss on disposal of an item of property, plant and equipment is estimated as a difference between the disposal proceeds, and is recognised in current period’s profit or loss under other income and expenses. If the disposal is related to previously re-measured assets, an appropriate amount from the revaluation reserve is transferred to retained earnings.

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

Buildings (investments in third-party facilities)	6-15	years
Plant and equipment	3–10	years
Vehicles	5	years

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

e) Intangible assets

(i) Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill valuation methods at the time of its initial recognition are described in Note 3(a)(i).

Measurement after the initial recognition

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

Goodwill is not amortised. As at the end of each reporting period, goodwill is tested for impairment.

(ii) Other intangible assets

Other acquired intangible assets with finite useful economic lives are recognised based on their acquisition cost, less amortisation charges and impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

Software	5 years
Research and development work	2–5 years

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

f) Property, plant and equipment used under lease agreements

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

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

g) Inventories

Inventories are measured at acquisition cost not higher than net realisable price. The value of inventories is determined using the FIFO ("first in, first out") method. The acquisition cost comprises the purchase price increased by costs directly related to the purchase.

Net realisable price is the selling price estimate made in the course of business, less estimated cost to complete and estimated cost necessary to close the sale.

h) Impairment losses on assets

(i) Financial assets other than derivative instruments

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

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

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

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

i) Employee benefits

(i) Defined contribution plan

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

(ii) Short-term employee benefits

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

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

(iii) Share-based payments (management stock option plan)

The fair value of rights granted to employees to acquire the Parent's shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The fair value of the plan is initially measured as at the grant date. Fair value of the options is recognised in the Group's profit or loss over the period during which employees become unconditionally entitled to acquire the shares. The value of the plan is reviewed as at the end of each reporting period and as at the option vesting date, by changing the number of options that are expected by the Group to be unconditionally vested. Any changes in the fair value of the plan

are disclosed as an adjustment to values previously posted in the current period. The fair value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based scheme, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the fair value of an individual right may only increase.

j) Provisions

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

k) Revenue

(i) Revenue from debt collection services

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

Revenue from fee-based credit management services

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

Revenue from debt purchase

Estimated inflows from debt portfolios are divided into principal recoveries and interest determined using the discount rate. Recovered principal is recognised as reduction of the present value 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. For a detailed description of the accounting policies relating to purchased debt portfolios, see Note 3(c)(i).

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.

(ii) Sales of goods for resale and materials

Revenue from sales of goods for resale and materials is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

l) Lease payments

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

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

m) Finance income and expenses

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

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

n) Income tax

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

When determining amounts of current and deferred tax, the Company takes into account the impact of uncertainty concerning potential additional tax liabilities. The Company believes that the reported tax liabilities are correct for all the tax years in respect of which inspections may be carried out by tax authorities. This judgement is based on an assessment of a number of factors, including interpretations of the tax laws and previous years' experience. However, facts and circumstances which may materialize in the future, may have an effect on an assessment of correctness of the existing and past tax liabilities.

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

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

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

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

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

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

o) Earnings per share

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

of ordinary shares by the weighted average number of ordinary shares adjusted for the number of own shares and the dilutive effect of any potential shares.

p) Segment reporting

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

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

q) New standards and interpretations not applied in these financial statements

Some new standards, changes to standards and interpretations which apply to the annual reporting periods beginning after January 1st 2012 have not been applied in the preparation of these financial statements. Among the new Standards, amendments to standards and interpretations these set out below will have a significant impact on the financial statements. The Group intends to use them for the periods for which they are valid for the first time.

Standards and Interpretations endorsed by the EU, which are not yet effective for annual periods ending on December 31st 2012

Standard/Interpretation endorsed by the EU	**Nature of impending change in accounting policy**	**Impact on financial statements**	**Effective for periods beginning on or after:**
Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income	The Amendments: •require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before tax, then the total tax amount should be allocated to each of the two groups of other comprehensive income items. •change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	July 1st 2012
IFRS 13 *Fair Value Measurement*	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a	The Group has not yet analysed the impact of the	January 1st 2013

	framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when such measurement is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.	new Standard on its financial standing and operating performance.	
IFRS 10 *Consolidated Financial Statements*	IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2014
IFRS 12 *Disclosure of Interests in Other Entities*	IFRS 12 requires additional disclosures relating to significant judgements made in determining the nature of interests in an entity, joint arrangements, associates and/or unconsolidated structured entities.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2014
IAS 27 (2011) *Separate Financial Statements*	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. The existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have also been incorporated into IAS 27 (2011). The Standard no longer addresses control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 *Consolidated Financial Statements*.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2014

Standards and interpretations not yet endorsed by the EU as at December 31st 2012

Standards and interpretations not yet endorsed by the EU	Nature of impending change in accounting policy	Impact on financial statements	Effective for periods beginning on or after:
Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities	The amendments: • define the date of initial application of IFRS 10 as the beginning of the annual reporting period, in which IFRS 10 is applied for the first time (i.e. January 1st 2013 if the standard has not been applied before that date). As at that date an entity assesses whether the consolidation conclusion has changed in respect of investees; • limit the requirement to provide adjusted comparative information to the period immediately preceding the date of initial application, which applies to all standards being amended. Entities which voluntarily present comparative data for more than one period are not required to restate the data for the additional comparative periods; • require the disclosure of the impact of a change in accounting policy on the period immediately preceding the date of initial application (disclosure of the impact of such changes on current period is not required); • eliminate the requirement to present comparative information for the disclosures related to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2013
IFRS 9 *Financial Instruments (2009)*	The Standard replaces the guidance contained in IAS 39 Financial Instruments: Recognition and Measurement about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: • financial assets measured at amortised cost; or • financial assets measured at fair value. A financial asset is measured at amortised cost if the following two conditions are met: • the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, • its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss of current period, except for an investment in an equity instrument which is not held for trading. IFRS 9 allows an entity to make an irrevocable election, on initial recognition, to present fair value measurement of the investment in other comprehensive income (OCI). The election is available on an individual instrument-by-	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2015

	instrument basis. No amount recognised in OCI may be ever reclassified to profit or loss at a later date.		
Amendments to IFRS 9 *Financial Instruments* (2010)	The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements of IAS 39 on the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as measured at fair value through profit or loss should be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss of current period. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss of current period. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss in subsequent periods but may be transferred within equity. Derivative financial instruments that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2015
Amendments to IFRS 9 *Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures*	The Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 Financial Instruments (2010). The amended IFRS 7 requires an entity to disclose more details about the effect of the initial application of IFRS 9 when the entity does not restate comparative information in accordance with the amended requirements of IFRS 9. If an entity adopts IFRS 9 on or after January 1st 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application. If an entity early adopts IFRS 9 in 2012, then it may either restate comparative information or provide the enhanced disclosures as required by the amended IFRS 7. If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 is required.	The Group has not yet analysed the impact of the new Standard on its financial standing and operating performance.	January 1st 2015

4. Fair value measurement

In many cases, the accounting and disclosure policies adopted by the Group require that the fair value of both financial and non-financial assets and liabilities be determined. Fair values are determined and disclosed using the methods presented below. In justified cases, further information concerning the assumptions used for the calculation of fair values have been presented in respective notes specific to the relevant assets or liabilities.

(i) Property, plant and equipment

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

(ii) Intangible assets

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

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

(iii) Inventories

Fair value of inventories acquired as a result of a business combination is determined based on the estimated selling price in the ordinary course of business, net of estimated cost of preparing the inventories for sale and executing the sale and a reasonable profit margin based on the expenditures incurred to prepare the inventories for sale and execute the sale.

(iv) Trade and other receivables

Fair value of trade and other receivables is estimated as the present value of future cash flows discounted using a market interest rate as at the reporting date. Receivables with short maturities are not discounted because their carrying amount is approximately equal to their fair value. Fair value is estimated only for the purpose of disclosure.

(v) Financial instruments at fair value through profit or loss

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.

(vi) Financial liabilities other than derivative instruments

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

(vii) Share-based payments (management stock option plan)

Valuation of the plan has been performed using the Black-Scholes model. This model has been chosen due to the fact that it is widely used for valuation of options and relatively simple. The stock option plan does not contain any elements which would call for application of any more sophisticated models. The selected model takes into account all the key factors affecting the cost recognised by the Group, including:

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

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

5. Financial risk management

Introduction

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

- credit risk
- liquidity risk
- market risk

This note presents information on the Group's exposure to each type of the above risks, the Group’s objectives, policies and procedures for measuring and managing the risks, and the Group’s management of capital. Note 27 to the consolidated financial statements presents respective quantitative disclosures.

Key policies of risk management

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

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

Credit risk

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

Notes to the consolidated financial statements

Trade and other receivables

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

The Group regularly monitors whether payments are made when due, and if any delays are found, the following actions are taken:
- notices are sent to clients
- e-mails are sent to clients
- telephone calls are made to clients.

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

The Group's exposure to credit risk mainly results from individual characteristics of each client. The Management Board believes that the Group's credit risk is low as the Group's counterparties are mainly financial institutions and reputable companies. The Group's largest client generates 1.05% of the Group's total revenue (2011: 2.6%). Receivables from the Group's largest client represented 19.15% of total trade receivables, VAT inclusive, as at December 31st 2012 (December 31st 2011: 12.32%). Therefore, there is no significant concentration of credit risk at the Group.

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

Purchased debt portfolios

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

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

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

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

- Debt
  - outstanding amount
  - principal
  - principal to debt ratio
  - amount of credit granted / total amount of invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).

- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form
  - debtor's death or bankruptcy
  - debtor's employment.

- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforced collection order
  - court collection
  - bailiff collection.

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

The Group minimises the risk by performing a thorough valuation of each portfolio before it is purchased, taking into account the likelihood of recovery of invested capital and the estimated costs of the collection process. Debt portfolios are purchased at official auctions, and prices offered by the Group in most of such auctions do not differ significantly from prices offered by the Group's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.
The market value of a portfolio and its maximum purchase price are determined based on a complex statistical and economic analysis. Initially, portfolios are divided into sub-portfolios based on debt amount and type of security. This is done to select debts which can be valued using statistical methods. Remaining sub-portfolios are valued on a case-by-case basis in a due diligence process.
Proceeds are estimated based on a statistical model developed on the basis of available and precisely selected reference data matching the valuation data. The reference data is derived from a database containing information on portfolios previously purchased and collected by the Group.

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

Moreover, the Group diversifies the risk by purchasing various types of debt, with varying degrees of problems and delinquency periods.
The Group uses the following collection measures:
- notices
- phone calls
- text messages
- partial debt cancellation
- intermediation in securing an alternative source of financing,
- doorstep collection (at home or workplace)
- detective activities
- amicable settlements
- court collection
- enforcement against collateral.

Liquidity risk

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

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

Market risk

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

In the Management Board's opinion, for the Group the market risk relates primarily to exposure to the risk of changes in the PLN/RON exchange rate, given the Group's considerable investments in debt portfolios denominated in RON. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. As at December 31st 2012, assets denominated in foreign currencies accounted for 26.47% of total assets, while liabilities denominated in foreign currencies represented 1.92% of total liabilities (December 31st 2011: 29.9% and 1.9% respectively).

The Group does not use financial instruments to hedge interest rate risks or exchange rate risks, because cash payments in foreign currencies are reinvested in the purchase of debt portfolios in the same currency.

Capital management

The Management Board's capital management policy is designed to secure a solid capital base necessary to maintain the trust of investors, lenders and other market participants, and to ensure future business growth. The Management Board monitors the return on equity, defined by the Group as the ratio of operating profit/(loss) to equity, excluding non-controlling interests.

The Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base. The Group aims to achieve a high return on equity; in the reporting period from January 1st 2012 to December 31st 2012 the rate was 34.3% (2011: 40.3%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 9.06% (2011: 9.1%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings and other debt instruments, issued notes and liabilities under finance lease agreements to total equity, was 1.88 as at December 31st 2012 (December 31st 2011: 2.0).

In the reporting period from January 1st 2012 to December 31st 2012, there were no changes in the Group's approach to capital management.

As required by the Commercial Companies Code, the share capital of the Parent must be at least PLN 100 thousand. The Parent is required to allocate at least 8% of profit to reserve funds serving to cover potential future losses. Contributions to the reserve funds are made until the funds reach at least one third of the share capital value.

6. Reporting and geographical segments

Reporting segments

The Group has two principal reporting segments described below. The President of the Management Board 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.

Information on the performance of each reporting segment is presented 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. A segment's gross profit is used to measure its 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 segments: Poland, Romania, the Czech Republic and Slovakia.

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

- Poland
- Romania
- Other foreign markets

Reporting segments

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Revenue	**342,992**	**274,031**
Purchased debt portfolios	302,996	230,351
Debt collection services	32,883	40,966
Other products	7,113	2,714
Direct and indirect costs	**(148,882)**	**(130,360)**
Purchased debt portfolios	(122,176)	(103,123)
Debt collection services	(20,515)	(23,265)
Other products	(6,191)	(3,972)
Gross profit	**194,110**	**143,671**
Purchased debt portfolios	180,820	127,228
Debt collection services	12,368	17,701
Other products	922	(1,258)
Administrative expenses	(50,258)	(40,920)
Depreciation and amortisation expense	(7,335)	(5,427)
Other income	2,516	1,367
Other expenses (unallocated)	(2,361)	(2,696)
Finance income/costs	(51,579)	(27,449)
Pre-tax profit	85,094	68,546
Income tax	(3,900)	(2,154)
Net profit	81,194	66,392

Notes to the consolidated financial statements

Geographical segments

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

Revenue by geographical segments:

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Revenue	**342,992**	**274,031**
Poland	240,099	170,010
Romania	85,103	102,892
Other foreign markets	17,790	1,128
Direct and indirect costs	**(148,882)**	**(130,360)**
Poland	(115,485)	(106,785)
Romania	(24,130)	(23,275)
Other foreign markets	(9,267)	(300)
Gross profit	**194,110**	**143,671**
Poland	124,614	63,225
Romania	60,973	79,617
Other foreign markets	8,523	828
Administrative expenses	(50,258)	(40,920)
Depreciation and amortisation expense	(7,335)	(5,427)
Other income	2,516	1,367
Other expenses (unallocated)	(2,361)	(2,696)
Finance income/costs	(51,579)	(27,449)
Pre-tax profit	85,094	68,546
Income tax expense	(3,900)	(2,154)
Net profit	81,194	66,392

7. Revenue

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Revenue from debt purchase	302,996	230,351
Revenue from debt collection services	32,883	40,966
Revenue from other services	7,113	2,714
	342,992	274,031

Revenue from debt purchase includes:

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Interest income adjusted for actual payments	298,299	210,603
Revaluation of debt portfolios	4,697	19,748
	302,996	230,351

Remeasurement of fair value of purchased debt portfolios

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Revision of recovery forecast	5,192	21,040
Change due to change in discount rate	(495)	(1,292)
	4,697	19,748

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

Revenue forecast update is primarily based on the analysis of:
- debtors' behaviour patterns and effectiveness of the collection tools used;
- assessment of debtors' financial standing in the context of macroeconomic developments on particular markets;
- changes in currency exchange rates against PLN (for debt portfolios not re-valued in the functional currency).

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

Revenue from fee-based credit management includes commission fees ranging from 2% to 49% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key client accounts for 10.09% of total revenue from fee-based credit management (2011: 17.7%).

8. Other income

PLN '000	*Note*	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Unidentified time-barred payments written off		832	-
Release of impairment loss on receivables	*27*	24	53
Return of compensation for automobile caused damage		361	223
Sale of property, plant and equipment		259	247
Re-invoiced costs of services and court fees		657	619
Other		383	225
		2,516	1,367

9. Other operating expenses

PLN '000	*Note*	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Court fees		(40,686)	(28,350)
Advertising		(5,381)	(8,548)
Raw material and consumables used		(6,677)	(6,385)
Taxes and charges		(10,743)	(8,755)
Impairment loss on receivables	*27*	(180)	(129)
Employee trainings		(924)	(921)
Business trips		(1,034)	(1,048)
Representation and entertainment expenses		(146)	(238)
Car insurance		(639)	(377)
Motor vehicle losses		(397)	(219)
Property insurance		(91)	(183)
Re-invoiced costs of services		(425)	(547)
Other		(101)	(919)
		(67,424)	(56,619)

10. Salaries and Employee benefits

PLN '000	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Salaries and wages	(68,975)	(57,844)
Other social security contributions	(3,951)	(4,590)
Old-age and disability pension contributions (defined benefit plans)	(11 637)	(6,427)
Contribution to the State Fund for the Disabled	(904)	(768)
Equity-settled share-based payments	(2,346)	(890)
	(87,813)	(70,519)

11. Finance income and expenses

Recognised as profit or loss for current period

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Interest income on loans and receivables	-	1,145
Interest income on bank deposits	1,232	1,532
Decrease in impairment loss on loans advanced	-	236
Other finance income	-	21
	1,232	2,934
Interest expense on financial liabilities measured at amortised cost	(49,844)	(28,119)
Net foreign exchange gains/(losses)	(2,967)	(2,264)
Impairment losses on financial instruments measured at amortised cost	-	-
	(52,811)	(30,383)
Net finance expenses recognised in profit or loss	(51,579)	(27,449)

The finance income and expenses shown above include interest income and expenses relating to assets (liabilities) other than those at fair value through profit or loss:

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Total interest income on financial assets	1,232	2,677
Total interest expense on financial liabilities	(49,844)	(28,119)

Recognised under other comprehensive income

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Exchange differences on translating foreign operations	(4,104)	(55)
Attributable to:		
Owners of the parent	(4,104)	(55)
Finance income recognised directly in other comprehensive income	(4,104)	(55)

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	***Note***	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Income tax (current portion)			
Income tax for the period		3,666	690
Income tax (deferred portion)			
Origination/ reversal of temporary differences	*17*	234	1,464
		3,900	2,154

Reconciliation of effective tax rate

PLN '000	**Jan 1 2012 – Dec 31 2012**	**Jan 1 2011 – Dec 31 2011**
Net profit for the period	81,194	66,392
Income tax disclosed in the statement of income or loss	(3,900)	(2,154)
Pre-tax profit for the reporting period (assuming 19% tax rate)	89,136	68,914
Pre-tax loss for the reporting period (assuming 16% tax rate)	(556)	(18)
Pre-tax loss for the reporting period (assuming 19%/20% tax rate)	(3,486)	(350)
Tax calculated at the tax rate applicable in Poland (19%)	(16,936)	(13,094)
Tax calculated using the tax rate applicable in Romania (16%)	89	3
Tax calculated using the tax rate applicable in the Czech Republic (19%/20%)	662	70
Effect of non-deductible expenses	(18,669)	(8,709)
Effect of tax-exempt income	30,810	20,105
Adjustment of tax losses for prior years	-	(178)
Change in temporary differences not recognised in deferred tax expense	144	(351)
	(3,900)	(2,154)

The effective tax rate differs from the applicable tax rates as the consolidated data includes data of entities whose operations are not taxed with income tax (closed-end investment funds) or are taxed at preferential rates (a Luxembourg-based subsidiary).

13. Property, plant and equipment

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value of property, plant and equipment						
Gross value as at Jan 1 2011	1,823	8,131	7,045	983	27	18,009
Purchase	191	3,048	3,777	594	840	8,450
Sale/ liquidation	(28)	(391)	(1,160)	(53)	-	(1,632)
Effect of exchange rate changes	(46)	(32)	(55)	(32)	-	(165)
Gross value as at Dec 31 2011	1,940	10,743	9,607	1,505	867	24,662

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2012	1,940	10,743	9,607	1,505	867	24,662
Purchase	60	3,107	4,056	395	15	7,633
Sale/ liquidation	-	(201)	(727)	(31)	-	(959)
Reclassification of tangible assets under construction	-	867	-	-	(867)	-
Effect of exchange rate changes	(55)	(152)	(88)	(78)	-	(373)
Gross value as at Dec 31 2012	1,945	14,364	12,848	1,791	15	30,963

PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Depreciation and impairment losses as at Jan 1 2011	(441)	(4,213)	(3,276)	(502)	-	(8,432)
Depreciation	(146)	(1,754)	(1,508)	(232)	-	(3,640)
Reclassification	-	11	-	(11)	-	-
Decrease resulting from sale/ liquidation	66	354	1,036	34	-	1,490
Effect of exchange rate changes	44	65	91	46	-	246
Depreciation and impairment losses as at Dec 31 2011	(477)	(5,537)	(3,657)	(665)	-	(10,336)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Depreciation and impairment losses as at Jan 1 2012	(477)	(5,537)	(3,657)	(665)	-	(10,336)
Depreciation	(535)	(1,956)	(1,903)	(329)	-	(4,723)
Decrease resulting from sale/ liquidation	-	201	675	2	-	878
Effect of exchange rate changes	30	330	39	28	-	427
Depreciation and impairment losses as at Dec 31 2012	(982)	(6,962)	(4,846)	(964)	-	(13,754)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Net value						
As at Jan 1 2011	1,382	3,918	3,769	481	27	9,577
As at Dec 31 2011	1,463	5,206	5,950	840	867	14,326
As at Jan 1 2012	1,463	5,206	5,950	840	867	14,326
As at Dec 31 2012	963	7,402	8,002	827	15	17,209

Property, plant and equipment under leases

Under finance lease agreements the Group uses passenger cars and trucks whose carrying amount as at December 31st 2012 and December 31st 2011 was PLN 7,266 thousand and PLN 6,142.0 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 23).

Tangible assets under construction

In 2012, the Group incurred costs related to the purchase of IT and telecommunication equipment not placed in service as at December 31st. As at December 31st 2012 and December 31st 2011, the value of tangible assets under construction was PLN 15 thousand and PLN 867 thousand, respectively.

14. Other intangible assets

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Gross value of intangible assets			
Gross value as at Jan 1 2011	8,082	369	8,451
Produced internally	2,180	-	2,180
Other increase	1,350	-	1,350
Effect of exchange rate changes	29	-	29
Gross value as at Dec 31 2011	11,641	369	12,010
Gross value as at Jan 1 2012	11,641	369	12,010
Produced internally	2,309	-	2,309
Other increase	1,390	-	1,390
Decrease	(244)	-	(244)
Effect of exchange rate changes	(24)	-	(24)
Gross value as at Dec 31 2012	15,072	369	15,441

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Amortisation and impairment losses			
Amortisation and impairment losses as at Jan 1 2011	(3,286)	(228)	(3,514)
Amortisation	(1,740)	(47)	(1,787)
Effect of exchange rate changes	(58)	-	(58)
Amortisation and impairment losses as at Dec 31 2011	(5,084)	(275)	(5,359)
Amortisation and impairment losses as at Jan 1 2012	(5,084)	(275)	(5,359)
Amortisation	(2,565)	(47)	(2,612)
Effect of exchange rate changes	103	-	103
Decrease	73	-	73
Amortisation and impairment losses as at Dec 31 2012	(7,473)	(322)	(7,795)

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Net value			
As at Jan 1 2011			
As at Dec 31 2011	4,796	141	4,937
	6,557	94	6,651
As at Jan 1 2012			
As at Dec 31 2012	6,557	94	6,651
	7,599	47	7,646

15. Goodwill

PLN '000	**RAVEN Law Firm**	**Rejestr Dłużników ERIF BIG S.A.**	**Total**
Gross			
Gross value as at Jan 1 2011	299	725	1,024
Gross value as at Dec 31 2011	299	725	1,024
Gross value as at Jan 1 2012	299	725	1,024
Gross value as at Dec 31 2012	299	725	1,024
Net value			
As at Jan 1 2011	299	725	1,024
As at Dec 31 2011	299	725	1,024
As at Jan 1 2012	299	725	1,024
As at Dec 31 2012	299	725	1,024

Tests for impairment of cash-generating units which include goodwill

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

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

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

16. Current investments

PLN '000	**31.12.2012**	**31.12.2011**
Current investments		
Financial assets at fair value through profit or loss	873,497	718,706
Loans advanced	6,515	3,222
	880,012	721,928

In 2010, the Parent commenced offering loans to individuals not engaged in any business activity. Loans are granted for up to PLN 2.5 thousand and their maturities range from 3 to 15 months. The loans bear interest at fixed rates. Loans bear interest at an average rate of 20%. Additional revenue comprises commission fees, arrangement fees and insurance.

Financial assets at fair value through profit or loss include purchased debt portfolios. Had the Group not decided to classify purchased debt portfolios as financial assets at fair value through profit or loss, they would be classified as loans and receivables. For the rules governing valuation of purchased debt portfolios, see Note 3(c)(i). Purchased debt portfolios are divided into the following main categories:

PLN '000	**31.12.2012**	**31.12.2011**
Purchased debt portfolios		
Bank loans, including:	810,764	655,159
- consumer loans	*809,641*	*653,042*
- car loans	*871*	*1,771*
- mortgage loans	*252*	*346*
Telecommunication bills	43,630	54,502
Cash loans (other than granted by banks)	346	381
Mixed portfolios	18,757	8,664
	873,497	718,706

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

	31.12.2012	**31.12.2011**
Discount rate		
- risk-free*	4.47%-6.24%	4.57%
- risk premium**	6.25%-416.54%	5.08%-194.42%
Period for which recoveries have been estimated:	Jan 2013 - Dec 2022	Jan 2012 - Dec 2022
Nominal value of expected future recoveries	1,701,013	1,438,654

** depending on the market*
*** applicable to 99% of fair value*

Notes to the consolidated financial statements

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

PLN '000	**31.12.2012**	**31.12.2011**
Period		
Up to 6 months	243,428	203,109
From 6 to 12 months	239,631	210,771
From 1 to 2 years	424,971	364,792
From 2 to 5 years	597,289	494,143
Over 5 years	195,694	165,839
	1,701,013	1,438,654

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios). The value of security held by the Group is difficult to assess and varies on a case-by-case basis.

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;
- risk premium;
- period for which cash flows are estimated;
- value of expected future cash flows estimated using the current data and debt collection tools.

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans advanced and investments held to maturity, see Note 27.

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

PLN '000	
Purchased debt portfolios as at Jan 1 2011	263,228
Purchase of debt portfolios	568,879
Purchase price adjustment for discount	(5,174)
Recoveries from debtors	(341,122)
Revenue from debt purchase (interest and revaluation)	232,895
Purchased debt portfolios as at Dec 31 2011	718,706
Purchased debt portfolios as at Jan 1 2012	718,706
Purchase of debt portfolios	309,269
Adjustment following change in valuation (*)	(347)
Purchase price adjustment for discount	(793)
Recoveries from debtors	(451,329)
Liabilities to debtors due to overpayments	1,097
Revenue from debt purchase (interest and revaluation)	302,996
Fair value translation differences (**)	(6,102)
Purchased debt portfolios as at Dec 31 2012	873,415

(*) In the current year, portfolios purchased by KRUK International S.r.o. in the Czech Republic were translated into CZK, which is the company's functional currency. Due to its negligible effect on consolidation, in prior periods the valuation currency was PLN.
(**) RON to PLN translation differences relating to fair value of debt portfolios held by a subsidiary, whose functional currency is RON, recognised between July 1st 2012 and December 31st 2012 year (following introduction of RON as the functional currency of Secapital S.a.r.l. as of July 1st 2012)

Purchased debt portfolios with the carrying amount of PLN 12,626 thousand as at December 31st 2012 (December 31st 2011: PLN 6,809 thousand) serve as security for liabilities under bank borrowings (see Note 23).

Deferred tax

Deferred tax assets and liabilities

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

PLN '000	**Assets**		**Liabilities**		**Net value**	
	31.12.2012	**31.12.2011**	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Property, plant and equipment	1,400	-	(1,463)	(1,113)	(63)	(1,113)
Intangible assets	-	-	(1,106)	(907)	(1,106)	(907)
Financial assets at fair value through profit or loss	-	-	-	(144)	-	(144)
Trade and other receivables	-	30	(311)	(102)	(311)	(72)
Employee benefit obligations	2,046	2,182	-	-	2,046	2,182
Provisions and liabilities	592	1,260	-	(61)	592	1,199
Other	321	70	-	(15)	321	55
Tax loss carry forwards	124	637	-	-	124	637
Deferred tax assets/liabilities	4,483	4,179	(2,880)	(2,342)	1,603	1,837
Deferred tax assets offset against liabilities	(2,880)	(2,342)	2,880	2,342	-	-
Deferred tax assets/liabilities disclosed in the statement of financial position	1,603	1,837	-	-	1,603	1,837

PLN '000	**As at Jan 1 2011**	**Change in temporary differences recognised as profit or loss for period**	**As at Dec 31 2011**	**As at Jan 1 2012**	**Change in temporary differences recognised as profit or loss for period**	**As at Dec 31 2012**
Property, plant and equipment	(808)	(305)	(1,113)	(1,113)	1,050	63)
Intangible assets	(689)	(218)	(907)	(907)	(199)	(1,106)
Financial assets at fair value through profit or loss	467	(611)	(144)	(144)	144	-
Trade and other receivables	35	(107)	(72)	(72)	(239)	(311)
Employee benefit obligations	1,849	333	2,182	2,182	(136)	2,046
Provisions and liabilities	947	252	1,199	1,199	(607)	592
Other	25	30	55	55	266	321
Tax loss carry forwards	1,475	(838)	637	637	(513)	124
	3,301	(1,464)	1,837	1,837	(234)	1,603

Change in temporary differences in a period

Poland

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

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date losses**	**31.12.2012**	**31.12.2011**
Tax loss for 2007	Dec 31 2012	-	517
Tax loss for 2008	Dec 31 2013	316	833
Tax loss for 2009	Dec 31 2014	-	96
Tax loss for 2010	Dec 31 2015	-	3,104
Tax loss for 2011	Dec 31 2016	119	119
Tax loss for 2012	Dec 31 2017	203	-
		638	4,550
Applicable tax rate		19%	19%
Potential benefit of tax losses		121	865

Romania

Until 2009, tax loss could be used over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2009 year, the period over which tax losses can be used was extended to seven years. In 2012 year, KRUK International S.r.l. does not have tax losses, which could be used.

Czech Republic

The Czech subsidiary may use the loss over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2012 year, KRUK International S.r.o. recorded a tax loss of PLN 9,210 thousand (December 31st 2011: PLN 1,244 thousand).

PLN '000	**Tax loss expiry date losses**	**31.12.2012**	**31.12.2011**
Tax loss for 2011	Dec 31 2016	1,244	1 244
Tax loss for 2012	Dec 31 2017	9,210	-
		10,454	1 244
Applicable tax rate		19%	19%
Potential benefit of tax losses		1,986	236

Deferred tax assets of PLN 1.983 thousand (December 31st 2011: PLN 535 thousand) were not included in the calculation of deferred tax as the probability of their use is uncertain.

Under the applicable tax laws, deductible temporary differences do not expire. Deferred tax assets were identified for tax losses incurred by the entities based in Poland, assuming a 19% tax rate, for tax losses incurred by the entities based in Romania, assuming a 16% tax rate, and for tax losses incurred by the entities based in Czech Republic, assuming a 19% tax rate. These are tax rates applicable as at the end of the reporting periods.

17. Inventories

PLN '000	31.12.2012	31.12.2011
Materials	595	537
Prepaid deliveries	284	-
	879	537

In the reporting period ended December 31st 2012, the Group did not recognise any impairment losses on inventories.

18. Trade and other receivables, current tax receivable

PLN '000	31.12.2012	31.12.2011
Trade receivables	12,019	12,804
Taxes and excise duties payable	4,080	1,988
Other receivables	1,080	1,366
	17,179	16,158

For information on the Group's exposure to credit and currency risk as well as impairment losses on receivables, see Note 27.

19. Cash and cash equivalents

PLN '000	31.12.2012	31.12.2011
Cash in hand	50	20
Cash on current accounts	42,679	36,185
	42,729	36,205
Restricted cash	267	93

Restricted cash is represented by cash to be transferred to clients in respect of debts collected under fee-based credit management operations, and the funds of the Company's Social Benefits Fund.

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 27.

20. Equity

Share capital

	Ordinary shares	
	01.01.2012 - 31.12.2012	**01.01.2011 - 31.12.2011**
'000		
Number of shares as at Jan 1	16,900	15,309
Issue of shares	-	1,591
Number of fully-paid shares as at end of period	16,900	16,900
PLN		
Par value per share	1.00	1.00

Parent's shareholder structure as at December 31st 2012

Shareholder	**Number of shares**	**Par value of shares (PLN '000)**	**Share capital held (%)**
Polish Enterprise Fund IV L.P.	4,196,550	4,197	25%
Piotr Krupa	2,625,928	2,626	16%
Generali Otwarty Fundusz Emerytalny	866,101	866	5%
Other members of the Management Board	421,138	421	2%
Other Shareholders	8,790,623	8,791	52%
	16,900,340	16,900	100%

Issue of treasury shares

As at December 31st 2012, the registered share capital was divided into 16,900 thousand ordinary shares (December 31st 2011: 16,900 thousand). The par value per share was PLN 1.

The holders of ordinary shares are entitled to receive approved dividends and to exercise one vote per each share held at the Parent's General Meeting.

Other capital reserves

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

Share-based payments

In 2011, KRUK S.A. launched a share-based payment plan, which provides for the grant of rights to purchase shares at an agreed price (the Option Plan). The total cost of the Option Plan recognised in the income statement for 2011 and 2012 was PLN 890 thousand and PLN 2,346 thousand, respectively. The amount increased the Company's other capital reserves.

The incentive scheme operated by the Group is addressed to the Management Board Members (except for the President of the Management Board) and key management personnel of the Parent and Group companies.

The terms of the Option Plan for 2011-2014 were approved by virtue of resolutions of KRUK S.A.'s Extraordinary General Meeting. Under the plan, eligible persons will be granted the right to purchase

Company shares on preferential terms defined in the resolution and the Terms of the Option Plan. The rights will be vested on condition that an eligible person is employed by the Company or its subsidiary or remains in other legal relationship under which they provide services to the Company or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

For the purposes of the Option Plan, the General Meeting approved a conditional share capital increase of up to PLN 845,016.00, through an issue of up to 845,016 Series E ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series E shares to holders of subscription warrants that will be issued under the Option Plan. In order to implement the Option Plan, the Company may also reacquire previously issued shares (without carrying out a new issue) and offer them to holders of subscription warrants on the same terms as in the case of the Series E shares. The holders of subscription warrants will be entitled to exercise the rights to subscribe for Series E shares attached to the subscription warrants, at the issue price being equivalent to the issue price of the Company shares in the IPO (PLN 39.70 per share), not earlier than six months after the acquisition of the subscription warrants and not later than on June 30th 2016.

Subscription Warrants will be issued in four tranches, one for each year of the reference period, i.e. for the financial years 2012–2014.

The Supervisory Board is authorised to offer subscription warrants to eligible persons for a given financial year, provided that two financial ratios, EPS and EBITDA or ROE, reach the levels specified below:

- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EPS increases by at least 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EBITDA increases by at least 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, ROE equals at least 20%;

If the warrants are not offered in a given year due to failure to satisfy the above criteria, the warrants for the financial year may be allotted in a tranche for another financial year.

By virtue of a resolution of October 10th 2011, an Extraordinary General Meeting set aside PLN 40,000 thousand from retained earnings and allocated it to capital reserves. Capital reserves have been created in order to reacquire own shares for the purposes of the Option Plan.

In 2012, pursuant to Resolution No. 45/2012 of the KRUK Supervisory Board of July 20th 2012, issued on the basis of the 2011–2014 Incentive Scheme for key management personnel of the Company and the Group subsidiaries, as approved by virtue of Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A. of March 30th 2011, the Company issued 189,769 subscription warrants under Tranche 1 and offered them to the Eligible Persons specified in Appendix 1 to Resolution No. 45/2012 of the KRUK Supervisory Board.

Subscription warrants were delivered to Eligible Persons in the number specified in the Supervisory Board's resolution on September 3rd 2012.

Exchange differences on translating subsidiaries

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

21. Earnings per share

Basic earnings per share

As at December 31st 2012, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 81,039 thousand (2011: PLN 66,205 thousand) and the weighted average number of shares in the periods covered by the financial statements of 16,900 thousand (2011: 16,415 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Net profit for the period	81,194	66,392
Non-controlling interests	(155)	(187)
Net profit attributable to owners of the Parent	81,039	66,205

Weighted average number of ordinary shares

'000	***Note***	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Number of ordinary shares as at Jan 1	*21*	16,900	15,309
Effect of share retirement and share issue		-	1,106
Weighted average number of ordinary shares as at Dec 31		16,900	16,415
PLN			
Earnings per share		4.80	4.03

Diluted earnings per share

As at December 31st 2012, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 81,039 thousand and the weighted average number of shares in the period covered by the financial statements of 16,957 thousand. The amounts were determined as follows:

'000	***Note***	**31.12.2012**	**31.12.2011**
Number of ordinary shares as at Jan 1	*21*	16,900	16,415
Effect of issue of non-registered and unpaid shares		57	66
Weighted average number of ordinary shares as at Dec 31		16,957	16,481
PLN			
Earnings per share (diluted)		4.78	4.03

22. Liabilities under borrowings and other debt instruments

The note contains information on the Group's liabilities under borrowings and other debt instruments measured at amortised cost. Information on the Group's exposure to currency and interest rate risks is presented in Note 27.

PLN '000	**31.12.2012**	**31.12.2011**
Non-current liabilities		
Secured borrowings	79,955	70,453
Liabilities under debt securities (unsecured)	323,477	264,888
Finance lease liabilities	5,747	4,156
	409,179	339,497
Current liabilities		
Current portion of secured borrowings	81,248	41,442
Liabilities under debt securities (unsecured)	103,953	94,097
Current portion of finance lease liabilities	2,003	1,964
	187,204	137,503

Repayment terms and schedule for borrowings and other debt instruments

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**31.12.2012**	**31.12.2011**
Borrowings secured on the Group's assets	PLN	1M WIBOR + margin of 3-4.25 pp	2,016	161,203	111,895
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + 3.3-5.2 p.p.	2,016	427,430	358,985
Finance lease liabilities	EUR	3M WIBOR or 1M EURIBOR + 0.95-3.89 pp	2,017	7,750	6,120
				596,383	477,000

Bank borrowings are secured with a registered pledge over purchased debt portfolios with carrying amount of PLN 12,626 thousand as at December 31st 2012 (December 31st 2011: PLN 6,809 thousand), and with a registered pledge over shares in Secapital S.a.r.l. of Luxembourg of PLN 184,990 thousand as at December 31st 2012 (December 31st 2011: PLN 151,504 thousand).

Repayment schedule for finance lease liabilities

PLN '000	**Future minimum lease payments**	**Interest**	**Present value of future minimum lease payments**
As at Dec 31 2011			
up to 1 year	2,005	41	1,964
from 1 to 5 years	4,706	550	4,156
	6,711	591	6,120
As at Dec 31 2012			
up to 1 year	2,144	141	2,003
from 1 to 5 years	5,990	243	5,747
	8,134	384	7,750

Security over assets

PLN '000	**31.12.2012**	**31.12.2011**
Registered pledge over purchased portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	197,616	158,313
Property, plant and equipment under finance leases	7,266	6,142
	204,882	164,455

23. Employee benefits payable

PLN '000	**31.12.2012**	**31.12.2011**
Salaries and wages payable	4,967	3,943
Liabilities to the Social Security Institution	4,175	2,711
Personal income tax	800	709
Accrued holidays	1,972	1,394
Accrued salaries and wages (bonuses)	6,645	8,399
Special accounts	84	56
	18,643	17,212

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2011	1,015
Increase	1,669
Use	(1,290)
Value as at Dec 31 2011	1,394
Value as at Jan 1 2012	1,394
Increase	2,212
Use	(1,634)
Value as at Dec 31 2012	1,972

Change in accrued salaries and wages (bonuses)

Value as at Jan 1 2011	6,898
Increase	12,438
Use	(9,281)
Release	(1,656)
Value as at Dec 31 2011	8,399
Value as at Jan 1 2012	8,399
Increase	13,678
Use	(14,007)
Release	(1,425)
Value as at Dec 31 2012	6,645

24. Other current provisions

PLN '000	**Other provisions**
Value as at Jan 1 2011	174
Recognition	90
Value as at Dec 31 2011	264
Value as at Jan 1 2012	264
Recognition	-
Value as at Dec 31 2012	264

Retirement severance pays

The Group does not recognise provisions for retirement severance pays due to the young age of its employees and absence of the employees' rights to severance pays in excess of severance pays guaranteed by the labour law. Based on the Management Board's estimates, the amount of a potential provision would be insignificant.

Tax risk

The countries in which the Group operates (in particular, Poland and Romania) frequently amend the tax laws relating to value added tax, corporate and personal income tax, and social security contributions. Therefore, on many occasions no reference can be made to established regulations or legal precedents. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretation of tax regulations, both between individual public authorities and between public authorities and enterprises. Tax settlements as well as other settlements (including those related to customs duties or foreign currencies) may be inspected by authorities which are competent to impose significant penalties. Any additional liabilities resulting from such inspections need to be paid with interest. As a result, the tax risk in those countries is higher than in countries with more developed tax regimes.

In the subsidiary in Romania, there is a specific risk associated with the interpretation of tax laws governing the taxation of the unit and those cooperating with it. Despite the Group have reasons for this approach to be used, the subsidiary could be ruled out that in the event of a tax audit approach may be challenged by the tax authorities. In the case of lose, the maximum income tax arrears from individuals and social security contributions amount to 2,885 thousand (3,137 one thousand RON), plus any interest.

Tax settlements are subject to tax inspection for a period of five years. In effect, the amounts disclosed in the financial statements may be changed at a later date after they are finally determined by tax authorities.

25. Trade and other payables

PLN '000	**31.12.2012**	**31.12.2011**
Trade payables to other entities	23,552	54,834
Deferred income	128	209
Tax and duties payable	4,876	5,455
Accruals and deferred income	5,777	3,035
Other liabilities	4,175	3,414
	38,508	66,947

For information on exposure to currency risk and liquidity risk associated with liabilities, see Note 27.

26. Financial instruments

Credit risk

Exposure to credit risk

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

PLN '000	***Note***	**31.12.2012**	**31.12.2011**
Financial instruments at fair value through profit or loss	*16*	873,497	718,706
Loans	*16*	6,515	3,222
Receivables	*19*	17,179	16,158
Cash and cash equivalents	*20*	42,729	36,205
		939,920	774,291

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

PLN '000	**31.12.2012**	**31.12.2011**
Poland	681,847	525,562
Romania	197,518	210,559
Czech Republic	60,555	38,170
	939,920	774,291

Impairment losses

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

PLN '000	Gross value 31.12.2012	Impairment loss 31.12.2012	Gross value 31.12.2011	Impairment loss 31.12.2011
Not past-due	15,815	-	12,735	-
Past-due, 0-30 days	658	-	510	-
Past-due, 31-90 days	470	-	650	-
Past-due, 91-180 days	236	-	275	-
Past-due, 181-365 days	413	413	303	303
Past-due, over one year	1,169	1,169	1,735	1,735
	18,761	1,582	16,208	2,038

Changes of impairment losses on receivables are presented below:

PLN '000	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Impairment loss as at Jan 1	2,038	1,962
Impairment loss recognised in the reporting period	180	129
Release of impairment loss	(24)	(53)
Use of impairment loss	(612)	0
Impairment loss as at Dec 31	1,582	2,038

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

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

In 2011-2012, the Group did not recognise any general impairment losses for receivables.

Below are presented changes in impairment losses on loans advanced:

PLN '000	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Impairment loss as at Jan 1	280	516
Impairment loss recognised in the reporting period	446	-
Release of impairment loss	-	(236)
Impairment loss as at Dec 31	726	280

As at December 31st 2012, the gross value of loans advanced to individuals was PLN 7,241 thousand (December 31st 2011: PLN 3,499 thousand). The Company recognised general impairment losses on loans of PLN 726 thousand as at December 31st 2012 (December 31st 2011: PLN 280 thousand). The amount of impairment losses is determined for the entire portfolio based on estimated recoverability of advanced loans, which is established principally on the basis of loan delinquency periods.

Liquidity risk

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2011
PLN '000

	Present value	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities other than derivative instruments						
Secured borrowings	111,895	125,953	25,423	23,423	77,107	-
Unsecured issued notes	358,985	418,536	46,466	58,947	156,124	156,999
Finance lease liabilities	6,120	6,711	1,337	1,178	1,468	2,728
Trade and other payables	66,947	68,948	57,112	9,090	2,746	-
	543,947	620,148	130,338	92,638	237,445	159,727

As at Dec 31 2012
PLN '000

	Present value	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities other than derivative instruments						
Secured borrowings	161,203	179,127	68,323	21,762	39,828	49,214
Unsecured issued notes	427,430	522,866	68,618	81,779	157,454	215,015
Finance lease liabilities	7,750	8,135	1,080	1,065	2,428	3,562
Trade and other payables	38,508	38,809	29,432	9,377	-	-
	634,891	748,937	167,453	113,983	199,710	267,791

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2011 and December 31st 2012, respectively.
The Group does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

As at December 31st 2012, the unused revolving credit facility limit available to the Group was PLN 83,042 thousand (2011: PLN 41,308 thousand). The unused limit is available until July 31st 2015.

Currency risk

Exposure to currency risk

Details of the Group's exposure to currency risk as at the end of the reporting period are presented below:

PLN '000	31.12.2012				31.12.2011				
	EUR	**USD**	**RON**	**CZK**	**EUR**	**USD**	**RON**	**CZK**	**HUF**
Trade receivables	301	169	-	-	182	5	-	-	-
Cash	346	1	7,729	1,213	54	3	6,990	1	-
Financial assets at fair value through profit or loss	9,193	-	189,789	48,364	2,839	-	203,852	26,105	-
Trade and other payables	(65)	-	(10,707)	(105)	-	-	(9,399)	(105)	(7)
Liabilities under loans and borrowings, and other financial liabilities.	(7,816)	-	-	-	(5,763)	-	-	-	-
Exposure to currency risk	1,959	170	186,811	49,472	(2,688)	8	201,443	3,472	(7)

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

PLN	**Average exchange rates**		**End of the reporting period (spot rate)**	
	01.01.2012 - 31.12.2012	**01.01.2011 - 31.12.2011**	**31.12.2012**	**31.12.2011**
EUR 1	4.1736	4.1401	4.0882	4.4168
USD 1	3.2312	2.9679	3.0996	3.4174
RON 1	0.9377	0.9773	0.9197	1.0226
CZK 1	0.1661	0.1682	0.1630	0.1711
HUF 1	1.4496	1.4759	1.3977	1.4196

Sensitivity analysis

As at December 31st 2012, appreciation of the Polish złoty against EUR, CZK and RON would have resulted in an increase (decrease) of equity and pre-tax profit by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN '000	**Equity excluding profit or loss for current the period**	**Profit or loss for current the period**
Dec 31 2012		
EUR (10% appreciation of PLN)	-	(196)
RON (10% appreciation of PLN)	(15,342)	(3,339)
CZK (10% appreciation of PLN)	448	(5,395)
Dec 31 2011		
EUR (10% appreciation of PLN)	-	269
RON (10% appreciation of PLN)	-	(20,144)
CZK (10% appreciation of PLN)	-	(2,600)

Interest rate risk

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

PLN '000	**Book value**	
	31.12.2012	**31.12.2011**
Fixed-rate financial instruments		
Financial assets	23,694	19,380
Financial liabilities	(38,508)	(84,159)
	(14,814)	(64,779)
Variable-rate financial instruments		
Financial liabilities	(596,383)	(477,000)

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

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

Sensitivity analysis of cash flows from variable-interest-rate financial instruments

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

PLN '000	**Profit or loss for current the period**		**Equity excluding profit or loss for current the period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2012				
Variable-rate financial instruments	(5,964)	5,964	-	-
Dec 31 2011				
Variable-rate financial instruments	(4,770)	4,770	-	-

Fair values

Comparison between fair values and carrying amounts

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

PLN '000	*Note*	31.12.2012 Book value	31.12.2012 Fair value	31.12.2011 Book value	31.12.2011 Fair value
Financial instruments at fair value through profit or loss		873,497	873,497	718,706	718,706
Loans and receivables		23,694	23,694	19,380	19,380
Cash and cash equivalents		42,729	42,729	36,205	36,205
Secured bank borrowings		(161,203)	(161,203)	(111,895)	(111,895)
Unsecured issued notes		(427,430)	(427,430)	(358,985)	(358,985)
Finance lease liabilities		(7,750)	(7,750)	(6,120)	(6,120)
Trade and other payables		(38,508)	(38,508)	(66,947)	(66,947)
		305,029	305,029	230,344	230,344

For information on the rules applied to the determination of fair value, see Note 4.

Interest rates used for the assessment of fair value

	31.12.2012	31.12.2011
Financial assets at fair value through profit or loss	6.25% - 416.54%	9.65% - 198.99%
Borrowings	7.22%-8.47%	8.22%-9.02%
Unsecured issued notes	7.43%-9.33%	7.39%-12%
Finance lease liabilities	1.06%-4.0%	1.43%-4.13%

Hierarchy of financial instruments measured at fair value

The table below presents financial instruments 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 forgiven 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).

PLN '000	Level 3
As at Dec 31 2012	
Financial assets at fair value through profit or loss	873,497
As at Dec 31 2011	
Financial assets at fair value through profit or loss	718,706

27. Operating lease

Operating lease agreements with the Group as a lessee

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

PLN '000	31.12.2012	31.12.2011
up to 1 year	3,758	3,695
from 1 to 5 years	2,307	11,341
	6,065	15,036

Material operating lease agreements include:

- Agreement for the use of property with an area of 2,845 square metres located at ul. Legnicka 56 in Wrocław, Poland, executed with Legnicka Business House Sp. z o.o. on October 13th 2006. The agreement, executed for a term of ten years, is terminable after the initial period of five years. The annual cost of use is approximately EUR 314 thousand.
- Agreement for the use of property with an area of 1,044 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed fora term of ten years, is terminable after the initial period of five years. The annual cost of use is approximately PLN 1,013 thousand.
- Agreement for the use of property with an area of 665 square metres located in Targoviste, Romania, executed with ARTA S.C.M. of Targoviste, Romania, on August 15th 2008. The annual cost of use is EUR 27,930 thousand.
- Agreement executed with S.C. SEMA PARC S.A. of Bucharest on March 13th 2009. The annual cost of use of the 280 square metre property is approximately EUR 26,880.
- Agreement for the use of property with an area of 1,696 square metres, located at ul. Wołowska 4, Wrocław, executed with DEVCO Sp. z o.o. on December 10th 2010. The agreement was executed for a term of three years with no early termination option. The annual cost of use is approximately EUR 460 thousand

28. Related-party transactions

Remuneration of the management personnel

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

PLN '000	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Base pay/ managerial contract	3,180	2,478
Provisions for employee bonuses for current year	1,967	2,951
Bonuses paid for current year	-	251
Other - medical benefits and other	69	15
Share based consideration	2,346	890
	7,562	6,585

Other transactions with the management personnel

As at December 31st 2012, the management personnel of the Parent and their next of kin held 18% of the total voting rights at the Parent (December 31st 2011: 18%).
Certain members of the management personnel and their next of kin hold positions in other entities (outside of the Group), enabling them to control or significantly influence the financial and operating policies of such entities.

Some of such entities executed business transactions with the Group in the reporting period. The terms and conditions of such transactions did not differ from terms and conditions of similar transactions carried out or which may be carried out on an arm's length basis with non-related parties. The total value of these services for 2012 was 488 thousand.

Other related-party transactions

In 2011-2012, the Group did not execute any transactions with Polish Enterprise Fund IV L.P.

29. Composition of the Group

Subsidiaries

PLN '000	Country	Share capital held (%) 31.12.2012	31.12.2011	Gross value of shares 31.12.2012	31.12.2011
Secapital S.a.r.l	Luxembourg	100%	100%	605,280	469,567
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%	100	100
Secapital Polska Sp. z o.o.	Poland	100%	100%	50	50
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%	3,104	1,564
Novum Finance Sp. z o.o.	Poland	100%	100%	7,250	50
KRUK International S.r.l.	Romania	100%	100%	19,108	11,421
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%	300	300
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%	1,550	250
KRUK International S.r.o.	Czech Republic	100%	100%	33	33
Prokura NS FIZ*	Poland	100%	100%	-	-
Prokulus NS FIZ*	Poland	100%	100%	-	-
KRUK International Z.r.t.	Hungary	100%	-	1,337	-
				638,112	**483,335**

* subsidiaries of Secapital Sarl

All the subsidiaries listed above were consolidated in the consolidated financial statements prepared as at December 31st 2012 and for the period from January 1st 2012 to December 31st 2012, though:

- KRUK International Zrt. (until April 24th 2012 operating under the name of SH Money) has been consolidated since April 1st 2012.

On October 7th 2011, KRUK S.A. executed an agreement to purchase a Hungarian company SH Money Ingatlanfinanszírozási és Pénzügyi Zártkörűen Működő Részvénytársaság (“SH Money”). On March 9th 2012, the Hungarian financial regulator (PSZÁF) approved the purchase of SH Money by KRUK S.A. The purchase price was PLN 1,337 thousand. The acquired assets comprise cash and a licence for debt collection activities.

On June 6th 2012, the Management Board of KRUK S.A. resolved to suspend its activities designed to prepare for entering the Hungarian market for indefinite time. The Management Board believes that currently the estimated size of the Hungarian debt purchase market does not guarantee satisfactory development of the KRUK Group's business in that country, which, however, does not preclude the possibility of the Company entering that market in the future.

On February 6th 2012, Polski Rynek Długów Sp. z o.o. changed its name to NOVUM Finance Sp. z o.o. The change was entered in the National Court Register on February 15th 2012.

On February 21st 2013, KRUK International S.r.l. changed its name to KRUK ROMÂNIA S.r.l.

On February 22nd 2013, KRUK International S.r.o. changed its name to KRUK Česká a Slovenská republika S.r.o.

30. Events subsequent to the balance-sheet date

On January 28th 2013, the Company reduced the share capital and capital reserve of Secapital S.a.r.l. by PLN 7,000 thousand.

On February 5th 2013, the Company issued Series P2 notes for PLN 30,000 thousand.

On February 12th 2013, the Company issued Series P2 notes for PLN 30,000 thousand.

On February 18th 2013, the Company and NSFIZ PROKURA, a subsidiary, executed a trilateral agreement with Bank Zachodni WBK S.A. on a revolving credit facility of up to PLN 70m.

Piotr Krupa
President of the Management Board

Rafał Janiak
Member 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

Katarzyna Raczkiewicz
Person responsible for maintaining the accounting records

Wrocław, March 13th 2013