The Kruk Group

Consolidated financial statements for the financial year ended December 31st 2013

**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 2013
PLN '000

	Note	Dec 31 2013	Dec 31 2012
Assets			
Non-current assets			
Property, plant and equipment	*13*	20,079	17,209
Other intangible assets	*14*	10,408	7,646
Goodwill	*15*	1,024	1,024
Deferred tax assets	*17*	2,421	1,603
Total non-current assets		33 932	27,482
Current assets			
Inventories	*18*	529	879
Investments	*16*	1,063,841	880,012
Trade receivables	*19*	9,045	12,019
Income tax asset		-	767
Other receivables	*19*	17,768	5,160
Prepayments and accrued income		2,452	2,382
Cash and cash equivalents	*20*	35,258	42,729
Total current assets		1,128,893	943,948
Total assets		1,162,825	971,430
Equity and liabilities			
Equity	*21*		
Share capital		16,959	16,900
Share premium		47,381	45,107
Cash flow hedging reserve		(634)	-
Translation reserve		(7,726)	(3,774)
Other capital reserves		48,289	45,711
Retained earnings		311,157	213,532
Equity attributable to owners of the Parent		415,426	317,476
non-controlling interests		129	156
Total equity		415,555	317,632
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	*23*	512,817	409,179
Hedge derivatives		634	-
Total non-current liabilities		513,451	409,179
Current liabilities			
Current liabilities under borrowings and other debt instruments	*23*	174,642	187,204
Trade and other payables	*26*	35,572	38,508
Current tax liability		99	-
Employee benefit obligations	*24*	23,242	18,643
Current provisions	*25*	264	264
Total current liabilities		233,819	244,619
Total liabilities		747,270	653,798
Total equity and liabilities		1,162,825	971,430

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended December 31st 2013
PLN '000

	Note	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Revenue	*7*	405,611	342,992
Other income	*8*	3,482	2,091
Employee benefit expense	*10*	(116,452)	(87,813)
Depreciation and amortisation expense	*13,14*	(9,329)	(7,335)
Services		(48,437)	(46,263)
Other expenses	*9*	(81,930)	(66,999)
		(256,148)	(208,410)
Operating profit		152,945	136,673
Finance income	*11*	428	1,232
Finance costs	*11*	(54,886)	(52,811)
Net finance costs		(54,458)	(51,579)
Profit before tax		98,487	85,094
Income tax	*12*	(733)	(3,900)
Net profit for the period		97,754	81,194
Net profit attributable to:			
owners of the Parent		97,625	81,039
non-controlling interests		129	155
Net profit for the period		97,754	81,194
Earnings/(loss) per share			
Basic (PLN)	*22*	5.77	4.80
Diluted (PLN)	*22*	5.66	4.78

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended December 31st 2013
PLN '000

	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Net profit for the period	97,754	81,194
Other comprehensive income		
Items that may be reclassified to profit or loss		
Translation reserve	(3,952)	(4,104)
Cash flow hedges	(634)	-
Other comprehensive income, net, for the period	(4,586)	(4,104)
Total comprehensive income for the period	93,168	77,090
Total comprehensive income attributable to:		
owners of the Parent	93,039	76,935
non-controlling interests	129	155
Total comprehensive income for the period	93,168	77,090

The KRUK Group.

Consolidated statement of changes in equity

For financial year ended December 31st 2013 (PLN '000)

	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Equity attributable to owners of the Parent**	non-controlling interests	**Total equity**
Equity as at Jan 1 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										
- Translation reserve		-	-	-	(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		-	-	-	-	2,346	-	2,346	-	2,346
Total 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
Equity as at Jan 1 2013		16,900	45,107	-	(3,774)	45,711	213,532	317,476	156	317,632
Comprehensive income for the period										
Net profit for the period		-	-	-	-	-	97,625	97,625	129	97,754
Other comprehensive income										
- Translation reserve		-	-	-	(3,952)	-	-	(3,952)	-	(3,952)
- Valuation of hedging instruments		-	-	(634)	-	-	-	(634)	-	(634)
Total other comprehensive income		-	-	(634)	(3,952)	-	-	(4,586)	-	(4,586)
Total comprehensive income for the period		-	-	(634)	(3,952)	-	97,625	93,039	129	93,168
Contributions from and distributions to owners										
- Payment of dividend		-	-	-	-	-	-	-	(156)	(156)
- Issue of shares	*21*	59	2,274	-	-	-	-	2,333	-	2,333
- Share-based payments	*21*	-	-	-	-	2,578	-	2,578	-	2,578
Total contributions from and distributions to owners		59	2,274	-	-	2,578	-	4,911	(156)	4,755
Total equity as at Dec 31 2013		16,959	47,381	(634)	(7,726)	48,289	311,157	415,426	129	415,555

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended December 31st 2013
PLN '000

	Note	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Cash flows from operating activities			
Net profit for the period		97,754	81,194
Adjustments			
Depreciation of property, plant and equipment	*13*	6,035	4,723
Amortisation of intangible assets	*14*	3,294	2,612
Net finance costs		48,681	43,126
(Gain)/loss on sale of property, plant and equipment		(99)	(259)
Equity-settled share-based payments		2,578	2,346
Income tax		733	3,900
Change in other investments	*16*	(3,413)	(3,293)
Change in debt portfolios purchased	*16*	(184,368)	(154,791)
Change in inventories		350	(342)
Change in receivables		(9,634)	(1,021)
Change in accruals and deferrals		(70)	(582)
Change in trade and other payables		(2,197)	(28,439)
Change in employee benefit obligations		4,599	1,431
Income tax paid		(1,424)	(5,093)
Net cash from operating activities		(37,181)	(54,488)
Cash flows from investing activities			
Interest received		428	1,232
Sale of intangible assets and property, plant and equipment		693	496
Purchase of intangible assets and property, plant and equipment		(8,648)	(7,532)
Repayment of loans advanced		-	-
Net cash from investing activities		(7,527)	(5,804)
Cash flows from financing activities			
Net proceeds from issue of shares		2,333	-
Proceeds from issue of debt securities		250,000	190,000
Increase in borrowings		607,843	369,600
Repayment of borrowings		(668,469)	(320,232)
Payments under finance lease agreements		(2,484)	(2,169)
Payment of dividend		(156)	(187)
Redemption of debt securities		(101,500)	(120,660)
Interest paid		(50,330)	(49,536)
Net cash from financing activities		37,237	66,816
Total net cash flows		(7,471)	6,524
Cash and cash equivalents at beginning of the period		42,729	36,205
Cash and cash equivalents at end of the period	*20*	35,258	42,729

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 outsourced for collection by financial institutions and other clients.

On May 15th 2013, Novum Finance Sp. z o.o., a subsidiary of KRUK S.A. active on the lending market, executed a cooperation agreement with the Parent to act as the Parent's agent in executing cash loan agreements on its behalf, perform administration services with respect to such agreements, and coordinate the sales process. Under the agreement and since its effective date, cash loans have been advanced by Kruk S.A.

Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. ("RD ERIF BIG S.A."), a subsidiary of Kruk S.A., is a credit reference 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 2013 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

The Parent is Kruk S.A. The list of subsidiaries is included 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 3rd 2014.

b) Basis of preparation

These consolidated financial statements have been prepared for the reporting period from January 1st to December 31st 2013. The comparative data have been presented as at December 31st 2012 and for the period from January 1st to December 31st 2012.

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

- financial instruments at fair value through profit or loss,
- derivative instruments.

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 revised.

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

- Note 3c)(i) Financial instruments other than derivative instruments
- Note 3c)(ii) Derivative instruments and hedge accounting

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

- Note 16 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 power to govern the financial and operating policies of an entity 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 measures all non-controlling interests in proportion to the interests in identifiable net assets of the acquiree.

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

(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 buy or sell rates quoted as at the transaction date by the bank whose services a given entity uses.

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

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

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

Currency-translation differences are recognised in profit or loss for the given period.

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

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

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

The Group holds the following financial instruments other than derivative financial assets: financial assets at fair value through profit or loss, loans and receivables, and financial liabilities.

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

Purchased debt portfolios comprise high-volume portfolios of 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 their nominal value. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages such portfolios and the results of these 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 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 expected internal rate of return reflecting the purchase price and the estimated inflows, 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 a reduction of carrying amount of the debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. These amounts are disclosed as operating income, because the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.

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

The Group presents purchased debt portfolios under current assets as they are realised in the Group’s regular operating cycle and include almost exclusively overdue debts.

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, loans advanced, as well as trade receivables under loans and 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 and if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

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

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

(ii) Derivative instruments and hedge accounting

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

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

Hedging of future cash flows

In the case of hedging future cash flows, the effective portion of a change in fair value of a hedging instrument is recognised under other comprehensive income as cash flow hedging reserve. The ineffective portion of a change in fair value is recognised in profit or loss of the period.

The cumulative change in cash flow hedging reserve is reclassified to profit or loss of the period at the time when the hedged item affects profit or loss.

Where an instrument ceases to meet the conditions for hedge accounting, the effect of its measurement at fair value is charged directly to profit or loss.

(iii) 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.

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

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

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

Buildings (investments in third-party facilities)	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 or internally produced intangible assets with finite useful economic lives are recognised at 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 level of amortisation charges is determined based on acquisition or production cost of a certain asset, less residual value.
Amortisation cost is recognised in the current period's profit or loss on the straight-line basis with respect of the estimated useful life of a certain intangible asset, other than goodwill, from the moment it is put into service. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

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

Software	5 years

Research and development work	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 at a pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped up to the smallest distinguishable units which generate cash largely independently from other assets or units of assets ("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 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 at 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 merchandise and materials

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

(iii) Sales of other services

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

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

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 cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease, when the lease adjustment is confirmed.

m) Finance income and costs

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

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

n) Income tax

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

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

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

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

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

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

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

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

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

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2013 and, consequently, they have not been applied in preparing these consolidated financial statements. From among the new Standards, amendments to Standards and Interpretations, the ones discussed below may have an effect on the Group's financial statements. The Group intends to apply them to the periods for which they are effective for the first time.

Standards and Interpretations endorsed by the EU which are not yet effective for annual periods ending on December 31st 2013

- IFRS 10 *Consolidated Financial Statements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
- *Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities*
- IAS 28 (2011) *Investments in Associates and Joint Ventures*
- Amendments to IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities
- Recoverable Amounts Disclosures for Non-Financial Assets (Amendments to IAS 36 *Impairment of Assets*)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement)*

Standards and Interpretations not yet endorsed by the EU as at December 31st 2013

- IFRS 9 *Financial Instruments (2009)*
- Amendments to IFRS 9 Financial Instruments (2010)
- IFRIC 21 *Levies*
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to International Financial Reporting Standards 2010-2012
- Amendments to International Financial Reporting Standards 2011-2013

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.

A debt portfolio contains a large number of items with varying parameters (type, nominal value, delinquency period). Each purchased debt portfolio is divided into sub-portfolios with similar parameters, and separate cash flows are estimated for each sub-portfolio.

The estimated cash flows are primarily based on:
- expected recovery rates from the collection tools used,
- extent to which the collection tools are used with respect to individual portfolios (existing and planned),
- repayment history.

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

Credit risk is assessed with respect to an entire portfolio, rather than individual debtors.

(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.

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 2.03% of the Group's total revenue (2012: 1.05%). Receivables from the Group's largest client represented 1.74% of total trade receivables, VAT inclusive, as at December 31st 2013 (December 31st 2012: 19.15%). 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.

Notes to the consolidated financial statements

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.

Notes to the consolidated financial statements

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 2013, assets denominated in foreign currencies accounted for 32.62% of total assets, while liabilities denominated in foreign currencies represented 1.55% of total liabilities (December 31st 2012: 26.47% and 1.92% respectively).

The Group uses financial instruments to hedge its interest rate risk (see Note 3c (ii)).
The Group does not use financial instruments to hedge its exchange rate risk, because cash recoveries in foreign currencies are reinvested to purchase 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 2013 to December 31st 2013 this ratio, computed as the ratio of net profit for the reporting period to equity less net profit, was 30.8% (2012: 34.3%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 6.91% (2012: 9.06%).

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 1.65 as at December 31st 2013 (December 31st 2012: 1.9).

In the reporting period from January 1st 2013 to December 31st 2013, 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

Below, the Group presents its principal reporting segments. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reporting segments conduct the following activities:

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

Each segment's performance is discussed below. The key performance metric for each reporting segment is gross profit, which is disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit is used to measure 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	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Revenue	**405,611**	**342,992**
Purchased debt portfolios	355,733	302,996
Credit management	39,933	32,883
Other products	9,945	7,113
Direct and indirect costs	**(182,757)**	**(148,882)**
Purchased debt portfolios	(153,384)	(122,176)
Credit management	(21,236)	(20,515)
Other products	(8,137)	(6,191)
Gross profit	**222,854**	**194,110**
Purchased debt portfolios	202,349	180,820
Credit management	18,697	12,368
Other products	1,808	922
Administrative expenses	(60,437)	(50,258)
Depreciation and amortisation expense	(9,329)	(7,335)
Other income	3,482	2,091
Other expenses (unallocated)	(3,625)	(1,936)
Finance income/costs	(54,458)	(51,579)
Profit before tax	98,487	85,094
Income tax	(733)	(3,900)
Net profit	97,754	81,194

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	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Revenue	**405,611**	**342,993**
Poland	223,475	240,099
Romania	180,019	85,103
Other foreign markets	2,117	17,790

Non-current assets

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Poland	24,943	22,886
Romania	5,616	2,539
Other foreign markets	952	454
	31,511	25,879

7. Revenue

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Revenue from debt purchase	355,733	302,996
Revenue from credit management	39,933	32,883
Revenue from other services	9,945	7,113
	405,611	342,992

Revenue from debt purchase includes:

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Interest income adjusted for actual recoveries	368,978	298,299
Revaluation of debt portfolios	(13,245)	4,697
	355,733	302,996

Revaluation of debt portfolios

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Revision of recovery forecast	(27,604)	5,192
Change due to change in discount rate	14,359	(495)
	(13,245)	4,697

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

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

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

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key client accounts for 20.61% of total revenue from fee-based credit management (2012: 10.9%).

8. Other income

PLN '000	*Note*	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Unidentified time-barred payments written off		-	832
Reversal of impairment losses on receivables	*27*	2	24
Return of compensation for damage caused by motor vehicles		654	361
Gain on sale of property, plant and equipment		99	259
Re-billed costs of services and court fees		842	232
Liabilities written off		1,794	-
Other		91	383
		3,482	2,091

9. Other expenses

PLN '000	*Note*	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Court fees		(40,082)	(40,686)
Advertising		(8,005)	(5,381)
Raw materials and energy used		(9,326)	(6,677)
Taxes and charges		(15,797)	(10,743)
Impairment losses on receivables	*27*	(337)	(180)
Staff training		(1,252)	(924)
Business trips		(2,081)	(1,034)
Entertainment expenses		(747)	(146)
Motor insurance		(982)	(639)
Losses from damage caused by motor vehicles		(665)	(397)
Property insurance		(1,419)	(91)
Other		(1,237)	(101)
		(81,930)	(66,999)

10. Employee benefit expense

PLN '000	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Salaries and wages	(92,299)	(68,975)
Other social security contributions	(8,796)	(6,703)
Old-age and disability pension contributions (defined contribution plans)	(11 659)	(8,885)
Contribution to the State Fund for the Disabled	(1,120)	(904)
Equity-settled cost of stock option plan	(2,578)	(2,346)
	(116,452)	(87,813)

11. Finance income and expenses

Recognised as profit or loss for current period

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Interest income on bank deposits	428	1 232
	428	1 232
Interest expense on financial liabilities measured at amortised cost	(48,959)	(49,844)
Net foreign exchange gains/(losses)	(5,927)	(2,967)
	(54,886)	(52,811)
Net finance costs recognised in profit or loss	(54,458)	(51,579)

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

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Total interest income on financial assets	428	1,232
Total interest expense on financial liabilities	(48,959)	(49,844)

Recognised under other comprehensive income

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Translation reserve	(3,952)	(4,104)
Attributable to:		
owners of the Parent	(3,952)	(4,104)
Finance cost recognised directly in other comprehensive income	(3,952)	(4,104)

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	*Note*	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Income tax (current expense)			
Income tax for the period		(1,551)	(3,666)
Income tax (deferred expense)			
Origination/reversal of temporary differences	*17*	818	(234)
		(733)	(3,900)

Reconciliation of effective tax rate

PLN '000	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Net profit for the period	97,754	81,194
Income tax recognised in the income statement	(733)	(3,900)
Pre-tax profit for the period (assuming 19% tax rate)	99,363	89,136
Pre-tax profit for the period (assuming 16% tax rate)	719	(556)
Pre-tax loss for the period (assuming 19% tax rate)	(1,595)	(3,486)
Tax calculated at the tax rate applicable in Poland (19%)	(12,722)	(16,936)
Tax calculated at the tax rate applicable in Romania (16%)	115	89
Tax calculated at the tax rate applicable in the Czech Republic (19%)	303	662
Effect of non-deductible expenses	(26,766)	(18,669)
Effect of tax-exempt income	38,337	30,810
Change in temporary differences not recognised in deferred tax expense	-	144
	(733)	(3,900)

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 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

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2013	1,945	14,364	12,848	1,791	15	30,963
Purchase	17	1,529	7,239	609	82	9,476
Sale/ liquidation	-	(408)	(1,448)	(11)	-	(1,867)
Reclassification of tangible assets under construction	-	15	-	-	(15)	-
Effect of exchange rate changes	(4)	(20)	(7)	(15)	-	(46)
Gross value as at Dec 31 2013	1,958	15,480	18,632	2,374	82	38,526

PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2012	(477)	(5,537)	(3,657)	(665)	-	(10,336)
Depreciation expense	(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
Accumulated 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**
Accumulated depreciation and impairment losses as at Jan 1 2013	(982)	(6,962)	(4,846)	(964)	-	(13,754)
Depreciation expense	(464)	(2,497)	(2,710)	(364)	-	(6,035)
Decrease resulting from sale/ liquidation	-	331	1,040	7	-	1,378
Effect of exchange rate changes	(3)	(14)	(4)	(15)	-	(36)
Accumulated depreciation and impairment losses as at Dec 31 2013	(1,449)	(9,142)	(6,520)	(1,336)	-	(18,447)

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 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
As at Jan 1 2013	963	7,402	8,002	827	15	17,209
As at Dec 31 2013	509	6,338	12,112	1,038	82	20,079

Property, plant and equipment under leases

Under finance lease agreements, the Group uses passenger cars and trucks whose carrying amount as at December 31st 2013 and December 31st 2012 was PLN 11,320 thousand and PLN 7,266.0 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 2013, 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 2013 and December 31st 2012, the value of tangible assets under construction was PLN 82 thousand and PLN 15 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 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
Gross value as at Jan 1 2013	15,072	369	15,441
Produced internally	4,893	-	4,893
Other increase	1,186	-	1,186
Decrease	(165)	-	(165)
Effect of exchange rate changes	(10)	-	(10)
Gross value as at Dec 31 2013	20,976	369	21,345
			-

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2012	(5,084)	(275)	(5,359)
Amortisation expense	(2,565)	(47)	(2,612)
Decrease	103	-	103
Effect of exchange rate changes	73	-	73
Amortisation and impairment losses as at Dec 31 2012	(7,473)	(322)	(7,795)
Accumulated amortisation and impairment losses as at Jan 1 2013	(7,473)	(322)	(7,795)
Amortisation expense	(3,247)	(47)	(3,294)
Effect of exchange rate changes	1	-	1
Decrease	151	-	151
Accumulated amortisation and impairment losses as at Dec 31 2013	(10,568)	(369)	(10,937)

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Net value			
As at Jan 1 2012	6,557	94	6,651
As at Dec 31 2012	7,599	47	7,646
As at Jan 1 2013	7,599	47	7,646
As at Dec 31 2013	10,408	-	10,408

15. Goodwill

PLN '000	**RAVEN Law Firm**	**Rejestr Dłużników ERIF BIG S.A.**	**Total**
Gross value			
Gross value as at Jan 1 2012	299	725	1,024
Gross value as at Dec 31 2012	299	725	1,024
Gross value as at Jan 1 2013	299	725	1,024
Gross value as at Dec 31 2013	299	725	1,024
Net value			
As at Jan 1 2012	299	725	1,024
As at Dec 31 2012	299	725	1,024
As at Jan 1 2013	299	725	1,024
As at Dec 31 2013	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. Investments

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Investments		
Financial assets at fair value through profit or loss	1,053,913	873,497
Loans advanced	9,928	6,515
	1,063,841	880,012

In 2010, the Group commenced advancing 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 16%. 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	**Dec 31 2013**	**Dec 31 2012**
Purchased debt portfolios		
Bank loans, including:	998,927	810,764
- consumer loans	*972,308*	*809,641*
- car loans	*5,268*	*871*
- mortgage loans	*21,351*	*252*
Telecommunication bills	31,720	43,630
Cash loans (non-bank)	1,704	346
Mixed portfolios	21,562	18,757
	1,053,913	873,497

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

	Dec 31 2013	**Dec 31 2012**
Discount rate		
- risk-free*	0.733%-4.00%	4.47%-6.24%
- risk premium**	6.25% - 335.27%	6.25%-416.34%
Period for which cash flows have been estimated:	Jan 2014 - Dec 2023	Jan 2013 - Dec 2022
Nominal value of expected future cash flows	2,105,311	1,701,013

** Depending on the market.*

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

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

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Period		
Less than 6 months	276,177	243,428
From 6 to 12 months	259,638	239,631
From 1 to 2 years	474,542	424,971
From 2 to 5 years	826,772	597,289
Over 5 years	268,181	195,694
	2,105,310	1,701,013

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

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

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

PLN '000	
Purchased debt portfolios as at Jan 1 2012	**718,706**
Purchase of debt portfolios	309,269
Purchase price adjustment for discount	(793)
Cash recoveries	(451,329)
Liabilities to debtors due to overpayments	1,097
Revenue from debt purchase (interest and revaluation)	302 996
Fair value translation differences (*)	(6,449)
Purchased debt portfolios as at Dec 31 2012	**873,497**
Purchased debt portfolios as at Jan 1 2013	**873,497**
Purchase of debt portfolios	367,188
Purchase price adjustment for discount	(465)
Cash recoveries	(537,727)
Liabilities to debtors due to overpayments	(2,001)
Valuation of loyalty scheme	612
Revenue from debt purchase (interest and revaluation)	355 733
Fair value translation differences (*)	(2,924)
Purchased debt portfolios as at Dec 31 2013	**1,053,913**

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

17. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	**Assets**		**Liabilities**		**Net value**	
	Dec 31 2013	**Dec 31 2012**	**Dec 31 2013**	**Dec 31 2012**	**Dec 31 2013**	**Dec 31 2012**
Property, plant and equipment	1,649	-	(1,621)	(1,463)	28	(1,463)
Intangible assets	-	-	(1,351)	(1,106)	(1,351)	(1,106)
Financial assets at fair value through profit or loss	634	-	-	-	634	-
Trade and other receivables	-	-	(380)	(311)	(380)	(311)
Employee benefit obligations	2,429	2,046	-	-	2,429	2,046
Provisions and liabilities	638	1,992	-	-	638	1,992
Other	423	321	-	-	423	321
Tax loss carry forwards	-	124	-	-	-	124
Deferred tax assets/liabilities	5,773	4,483	(3,352)	(2,880)	2,421	1,603
Deferred tax assets offset against liabilities	(3,352)	(2,880)	3,352	2,880	-	-
Deferred tax assets/liabilities in the statement of financial position	2,421	1,603	-	-	2,421	1,603

Notes to the consolidated financial statements

Change in temporary differences in a period

PLN '000

	As at Jan 1 2012	Change in temporary differences recognised as profit or loss for the period	As at Dec 31 2012	As at Jan 1 2013	Change in temporary differences recognised as profit or loss for the period	As at Dec 31 2013
Property, plant and equipment	(1,113)	(350)	(1,463)	(1,463)	1,491	28
Intangible assets	(907)	(199)	(1,106)	(1,106)	(245)	(1,351)
Financial assets at fair value through profit or loss	(144)	144	-	-	-	-
Loans advanced to other entities	-	-	-	-	634	634
Trade and other receivables	(72)	(239)	(311)	(311)	(69)	(380)
Employee benefit obligations	2,182	(136)	2,046	2,046	383	2,429
Provisions and liabilities	1,199	793	1,992	1,992	(1,354)	638
Other	55	266	321	321	102	423
Tax loss carry forwards	637	(513)	124	124	(124)	-
	1,837	(234)	1,603	1,603	818	2,421

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**	**Dec 31 2013**	**Dec 31 2012**
Tax loss for 2008	Dec 31 2013	-	316
Tax loss for 2011	Dec 31 2016	93	119
Tax loss for 2012	Dec 31 2017	361	203
Tax loss for 2013	Dec 31 2018	1,032	-
		1,486	638
Applicable tax rate		19%	19%
Potential benefit of tax losses		282	121

Deferred tax assets of PLN 282 thousand (December 31st 2012: PLN 121 thousand) were not included in the calculation of deferred tax as the probability of their use is uncertain.

Romania

Until 2009, tax loss could be used over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2009, the period over which tax losses can be used was extended to seven years. As at December 31st 2013 and December 31st 2012, KRUK Romania S.r.l. did not have any unused tax losses.

Czech Republic

KRUK Česká a Slovenská republika s.r.o. may use a tax loss over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2013, KRUK Česká a Slovenská republika s.r.o. incurred a tax loss of PLN 8,394 thousand (December 31st 2012: PLN 9,210 thousand).

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2013**	**Dec 31 2012**
Tax loss for 2011	Dec 31 2016	1,244	1,244
Tax loss for 2012	Dec 31 2017	9,210	9,210
Tax loss for 2013	Dec 31 2018	8,394	-
		18,848	10,454
Applicable tax rate		19%	19%

Deferred tax assets of PLN 3,581 thousand (December 31st 2012: PLN 1,986 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 temporary differences and tax losses incurred by the entities based in Poland – assuming a 19% tax rate, for temporary differences and tax losses incurred by the entity based in Romania − assuming a 16% tax rate, and for temporary differences and tax losses incurred by the entity based in the Czech Republic − assuming a 19% tax rate. These are tax rates applicable as at the end of the reporting periods.

18. Inventories

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Materials	462	595
Prepaid deliveries	67	284
	529	879

In the reporting period ended December 31st 2013, the Group did not recognise any impairment losses on inventories.

19. Trade and other receivables

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Trade receivables	9,045	12,019
Taxes receivable (other than income tax)	7,379	4,080
Other receivables	10,389	1,080
	26,813	17,179

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

20. Cash and cash equivalents

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Cash in hand	45	50
Cash in current accounts	35,213	42,679
	35,258	42,729
Restricted cash	15	267

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.

21. Equity

Share capital

	Ordinary shares	
	Jan 1 2013 – Dec 31 2013	**Jan 1 2012 – Dec 31 2012**
'000		
Number of shares as at Jan 1	16,900	16,900
Issue of shares	59	-
Number of fully-paid shares at end of the period	16,959	16,900
PLN		
Par value per share	1.00	1.00
Par value of share capital as at Jan 1	16,900	16,900
Par value as at Dec 31	16,959	16,900

Parent's shareholder structure as at December 31st 2013

Shareholder	**Number of shares**	**Par value of shares (PLN '000)**	**Share capital held (%)**
Piotr Krupa	2,213,928	2,214	13.05%
Aviva OFE	1,932,184	1,932	11.39%
ING PTE (*)	1,835,643	1,836	10.82%
Amplico OFE (**)	1,310,000	1,310	7.72%
Generali OFE	1,575,000	1,575	9.29%
Other members of the Management Board	255,570	256	1.51%
Other Shareholders	7,836,770	7,836	46.22%
	16,959,095	16,959	100%

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

(**)Jointly Amplico OFE and Amplico DFE, managed by Amplico PTE S.A.

Issue of shares

As at December 31st 2013, the registered share capital was divided into 16,959 thousand ordinary shares (December 31st 2012: 16,900 thousand). The par value per share was PLN 1 (December 31st 2012: PLN 1).

On July 10th 2013, the Management Board of the Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of resolution No. 534/13 of July 10th 2013, resolved to register 27,896 Series E ordinary bearer shares of KRUK S.A., with a par value of PLN 1.00 per share, issued as part of a conditional share capital increase under Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A. dated March 30th 2011, and to assign to them ISIN code No. PLKRK0000010, provided that the regulated market operator agrees to introduce the shares to trading on the regulated market on which other Parent shares are traded under ISIN code No. PLKRK0000010.

On December 13th 2013, the Management Board of the Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of resolution No. 927/13 of December 13th 2013, resolved to register 30,859 Series E ordinary bearer shares of KRUK S.A., with a par value of PLN 1.00 per share, issued as part of a conditional share capital increase under Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A. dated March 30th 2011, and to assign to them ISIN code No. PLKRK0000010,

provided that the regulated market operator agrees to introduce the shares to trading on the regulated market on which other Parent shares are traded under ISIN code No. PLKRK0000010.

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 Parent's General Meeting, which has the power to decide on allocation of such reserves. In addition, capital reserves are also created when benefits are granted to employees under share-based payments and when cash flow hedging derivative instruments are measured.

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, 2012 and 2013 was PLN 890 thousand, PLN 2,346 thousand and PLN 2,578 thousand, respectively. The amounts increased the Group'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 KRUK S.A. (the "Company") and other 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 in the Rules for 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, the 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 repurchase Company 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 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.

On July 31st 2013, the KRUK Supervisory Board adopted a resolution on reviewing the fulfilment of conditions set forth in the Management Stock Option Plan with a view to granting Subscription Warrants for performance of the Incentive Scheme provisions in 2012, and determining the list of Eligible Persons under Tranche 2 for 2012. The Resolution stated that the conditions to grant the maximum number of warrants under Tranche 2 for 2012 were met, the list of persons eligible to acquire warrants under Tranche 2 for 2012 was determined, and subscription warrants were granted to the persons included in the list. Under Tranche 2, the Company issued 201,758 subscription warrants offering them to Eligible Persons for acquisition.

Subscription warrants were delivered to Eligible Persons in the number specified in the Supervisory Board's resolution on October 1st 2013.

Exchange differences on translating subordinates

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

22. Earnings per share

Basic earnings per share

As at December 31st 2013, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 97,625 thousand (2012: PLN 81,039 thousand) and the weighted average number of shares in the periods covered by the financial statements of 16,914 thousand (2012: 16,900 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Net profit for the period	97,754	81,194
non-controlling interests	(129)	(155)
Net profit attributable to owners of the Parent	97,625	81,039

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Number of ordinary shares as at Jan 1	*21*	16,900	16,900
Effect of retirement and issue		14	-
Weighted average number of ordinary shares in the period ended Dec 31		16,914	16,900
PLN			
Earnings per share		5.77	4.80

Diluted earnings per share

As at December 31st 2013, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 97,625 thousand and the weighted average number of shares in the period covered by the financial statements of 17,237 thousand. The amounts were determined as follows:

'000	***Note***	**Dec 31 2013**	**Dec 31 2012**
Weighted average number of ordinary shares in the period ended Dec 31	*21*	16,914	16,900
Effect of issue of non-registered and unpaid shares		323	57
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)		17,237	16,957
PLN			
Earnings per share (diluted)		5.66	4.78

PLN '000	Dec 31 2013	Dec 31 2012
Non-current liabilities		
Secured borrowings	50,464	79,955
Liabilities under debt securities (unsecured)	454,076	323,477
Finance lease liabilities	8,277	5,747
	512,817	409,179
Current liabilities		
Current portion of secured borrowings	50,044	81,248
Liabilities under debt securities (unsecured)	120,463	103,953
Current portion of finance lease liabilities	4,135	2,003
	174,642	187,204

23. 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.

Repayment terms and schedule for borrowings and other debt instruments

PLN '000	Currency	Nominal interest rate	Maturity	Dec 31 2013	Dec 31 2012
Borrowings secured on the Group's assets	PLN	1M WIBOR + margin of 2.5-4.25 pp	2017	100,508	161,203
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin 3.5-5.0 pp	2018	574,539	427,430
Finance lease liabilities	EUR	3M WIBOR or 1M EURIBOR + margin 0.68-4.0 pp	2017	12,412	7,750
				687,459	596,383

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	**Interest**	**Present value of future minimum lease payments**
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
As at Dec 31 2013			
up to 1 year	4,312	177	4,135
from 1 to 5 years	8,666	389	8,277
	12,978	566	12,412

Security over assets

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Registered pledge over purchased portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	158,976	197,616
Property, plant and equipment under finance leases	11,320	7,266
	170,296	204,882

Bank borrowings are secured by a registered pledge over shares in Secapital S.a.r.l. of Luxembourg, for an amount of PLN 183,506 thousand as at December 31st 2013 (December 31st 2012: PLN 184,990 thousand).

24. Employee benefit obligations

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Salaries and wages payable	7,389	4,967
Liabilities to the Social Security Institution	4,061	4,175
Personal income tax	1,027	800
Accrued holidays	2,771	1,972
Accrued salaries and wages (bonuses)	7,933	6,645
Special accounts	61	84
	23,242	18,643

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2012	1,394
Increase	2,212
Use	(1,634)
Value as at Dec 31 2012	1,972
Value as at Jan 1 2013	1,972
Increase	3,221
Use	(2,422)
Value as at Dec 31 2013	2,771

Change in accrued salaries and wages (bonuses)	
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
Value as at Jan 1 2013	6,645
Increase	20,182
Use	(18,741)
Release	(153)
Value as at Dec 31 2013	7,933

25. Current provisions

PLN '000	**Other provisions**
Value as at Jan 1 2012	264
Recognition	-
Value as at Dec 31 2012	264
Value as at Jan 1 2013	264
Recognition	-
Value as at Dec 31 2013	264

Retirement severance payments

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.

The subsidiary operating in Romania is exposed to a specific risk arising from the uncertain interpretation of 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.

26. Trade and other payables

Current liabilities *PLN '000*	**Dec 31 2013**	**Dec 31 2012**
Trade payables to other entities	21,033	23,552
Deferred income	612	128
Tax and duties payable	7,474	4,876
Accrued expenses	4,080	5,777
Other liabilities	2,373	4,175
	35,572	38,508

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

27. 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***	**Dec 31 2013**	**Dec 31 2012**
Financial instruments at fair value through profit or loss	*16*	1,053,913	873,497
Loans	*16*	9,928	6,515
Receivables	*19*	26,813	17,179
Cash and cash equivalents	*20*	35,258	42,729
		1,125,912	939,920

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

PLN '000	**Dec 31 2013**	**Dec 31 2012**
Poland	746,566	681,847
Romania	324,058	197,518
Czech Republic	55,288	60,555
	1,125,912	939,920

Impairment losses

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

PLN '000	**Gross value**	**Impairment loss**	**Gross value**	**Impairment loss**
	Dec 31 2013	**Dec 31 2013**	**Dec 31 2012**	**Dec 31 2012**
Not past due	25,366	-	15,815	-
Past due, 0-30 days	753	-	658	-
Past due, 31-90 days	244	-	470	-
Past due, 91-180 days	180	-	236	-
Past due, 181-365 days	289	19	413	413
Past due, over one year	923	923	1,169	1,169
	27,755	942	18,761	1,582

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Impairment loss as at Jan 1	1,582	2,038
Impairment loss recognised in the period	337	180
Reversal of impairment loss	(2)	(24)
Use of impairment loss	(975)	(612)
Impairment loss as at Dec 31	942	1,582

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

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

Below are presented changes in impairment losses on loans advanced:

PLN '000	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Impairment loss as at Jan 1	726	280
Impairment loss recognised in the period	1,119	446
Reversal of impairment loss	(544)	-
Impairment loss as at Dec 31	1,301	726

As at December 31st 2013, the gross value of loans advanced to individuals was PLN 11,229 thousand (December 31st 2012: PLN 7,241 thousand). The Group recognised an impairment loss on loans advanced of PLN 1,301 thousand as at December 31st 2013 (2012: PLN 726 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 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 bonds in issue	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

As at Dec 31 2013,
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	100,508	109,432	11,910	43,191	25,539	28,792
Unsecured bonds in issue	574,539	687,468	73,338	82,452	48,742	482,936
Finance lease liabilities	12,412	12,978	2,297	2,015	4,029	4,637
Derivative hedging instruments	634	634	383	251	-	-
Trade and other payables	35,572	35,572	35,572	-	-	-

723,665	846,084	123,500	127,909	78,310	516,365

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2012 and December 31st 2013, 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 2013, the undrawn revolving credit facility limit available to the Group was PLN 101,747 thousand (2012: PLN 83,042 thousand). The undrawn 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	**Dec 31 2013**				**Dec 31 2012**			
	EUR	**USD**	**RON**	**CZK**	**EUR**	**USD**	**RON**	**CZK**
Trade receivables	184	1	-	-	301	169	-	-
Cash	37	1	6,251	1,773	346	1	7,729	1,213
Financial assets at fair value through profit or loss	11,639	-	317,807	41,655	9,193	-	189,789	48,364
Trade and other payables	(92)	-	(5,529)	-	(65)	-	(10,707)	(105)
Liabilities under borrowings and other debt instruments	(12,412)	-	-	-	(7,816)	-	-	-
Exposure to currency risk	(644)	2	318,529	43,428	1,959	170	186,811	49,472

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 period (spot rates)**	
	Jan 1 2013 – Dec 31 2013	**Jan 1 2012 – Dec 31 2012**	**Dec 31 2013**	**Dec 31 2012**
EUR 1	4.2110	4.1736	4.1472	4.0882
USD 1	3.1653	3.2312	3.0120	3.0996
RON 1	0.9543	0.9377	0.9262	0.9197
CZK 1	0.1620	0.1661	0.1513	0.1630
HUF 100	1.4134	1.4496	1.3969	1.3977

Sensitivity analysis

As at December 31st 2013, 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 the current period**	**Profit or loss for the current period**
Dec 31 2013		
EUR (10% appreciation of PLN)	-	64
RON (10% appreciation of PLN)	(23,442)	(8,411)
CZK (10% appreciation of PLN)	444	(5,395)
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)

Interest rate risk

The Group partly hedges its cash flows connected with payments under instruments bearing interest at floating rates.

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

PLN '000	**Carrying amount**	
	Dec 31 2013	**Dec 31 2012**
Fixed-rate financial instruments		
Financial assets	36,741	23,694
Financial liabilities	(35,572)	(38,508)
	1,169	(14,814)
Hedging effect	(124,000)	-
	(122,831)	(14,814)
Floating-rate financial instruments		
Financial liabilities	(687,459)	(596,383)
Hedging effect	124,000	-
	(563,459)	(596,383)

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

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

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

The Group purchases derivative instruments in order to hedge interest rate risk.

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 the current period**		**Equity excluding profit or loss for the current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2013				
Floating-rate financial instruments	(6,210)	6,210	2,078	(2,159)
Dec 31 2012				
Floating-rate financial instruments	(5,964)	5,964	-	-

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*	**Dec 31 2013**		**Dec 31 2012**	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value					
Financial instruments at fair value through profit or loss		1,053,913	1,053,913	873,497	873,497
Hedge derivatives		(634)	(634)	-	-
		1,053,279	1,053,279	873,497	873,497
Financial assets and liabilities not measured at fair value					
Loans and receivables		36,741	36,741	23,694	23,694
Cash and cash equivalents		35,258	35,258	42,729	42,729
Secured bank borrowings		(100,508)	(100,508)	(161,203)	(161,203)
Unsecured bonds in issue		(574,539)	(574,539)	(427,430)	(427,430)
Finance lease liabilities		(12,412)	(12,412)	(7,750)	(7,750)
Trade and other payables		(35,572)	(35,572)	(38,508)	(38,508)
		(651,032)	(651,032)	(568,468)	(568,468)

Where financial assets and liabilities are not measured at fair value, their carrying amounts are their approximate fair values, given the close due dates and floating interest rates.

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

Notes to the consolidated financial statements

Interest rates used for the assessment of fair value

	Dec 31 2013	Dec 31 2012
Financial assets at fair value through profit or loss	6.98% - 339.27%	10.72% - 422.78%
Borrowings	5.11%-6.86%	7.22%-8.47%
Unsecured bonds in issue	6.21%-7.71%	7.43%-9.33%
Finance lease liabilities	0.68%-4.0%	1.06%-4.0%

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 2
As at Dec 31 2013	
Hedge derivatives	634
As at Dec 31 2012	
Hedge derivatives	-

PLN '000	Level 3
As at Dec 31 2013	
Financial assets at fair value through profit or loss	1,053,913
As at Dec 31 2012	
Financial assets at fair value through profit or loss	873,497

28. Operating lease

Operating lease agreements with the Group as a lessee

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

PLN '000	**Dec 31 2013**	**Dec 31 2012**
up to 1 year	2,864	3,758
from 1 to 5 years	2,915	2,307
	5,779	6,065

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 2,216 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed for a term of ten years, is terminable after the initial period of five years. The annual cost of use is 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 2,425 square metres, located at ul. Wołowska 4-20, Wrocław, executed with DEVCO Sp. z o.o. on December 10th 2010. The agreement was executed for a term of three years with no early termination option. The annual cost of use is approximately EUR 460 thousand

29. 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	**Jan 1 2013 – Dec 31 2013**	**Jan 1 2012 – Dec 31 2012**
Base pay/ managerial contract	2,538	3,180
Provisions for employee bonuses for the current year	2,414	1,967
Other - medical services and other	90	69
Share based consideration	2,578	2,346
	7,620	7,562

Other transactions with the management personnel

As at December 31st 2013, the members of the management body and persons closely related to them jointly held 15% of the total vote at the Parent's General Meeting (December 31st 2012: 18%).

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

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

Some of such entities executed business transactions with the Group in the reporting period. The terms and conditions of such transactions did not differ from terms and conditions of similar transactions carried out or which may be carried out on an arm's length basis with non-related parties. Services purchased from those entities totalled PLN 157 thousand in 2013.

30. Composition of the Group

Subsidiaries

		Share capital held (%)	
PLN '000	**Country**	**Dec 31 2012**	**Dec 31 2012**
Secapital S.a.r.l	Luxembourg	93.8%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o.	Poland	100%	100%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
Prokulus NS FIZ*	Poland	100%	100%
KRUK International Z.r.t. (in liquidation)	Hungary	100%	100%
Invest Capital Malta Ltd **	Malta	99.5%	-

* subsidiaries of Secapital Sarl
** subsidiaries in which the Company indirectly holds 100% of the share capital

On September 5th 2013, a resolution was adopted by the Management Board of KRUK S.A. to discontinue operations on the Hungarian market and relinquish the licence to purchase debts in Hungary that was granted to KRUK International Z.r.t. by the Hungarian Financial Supervision Authority (PSZÁF).

On October 8th 2013, the Company was notified of PSZÁF's decision of September 27th 2013 to commence liquidation proceedings with respect to KRUK International Z.r.t. The decision had been made upon KRUK International Zrt.'s request of September 11th 2013. Hitelintézeti Felszámoló Nonprofit Kft, with registered office at Damjanich u. 11-15 1071, Budapest, was appointed liquidator of KRUK International Zrt.

On December 3rd 2013, KRUK S.A. established InvestCapital Malta Ltd. The Company holds 99.5% of the share capital of InvestCapital Malta Ltd, while Secapital Polska Sp. z o.o. (the Company's subsidiary) holds the remaining 0.5%.

On December 11th 2013, KRUK S.A. and InvestCapital Malta Ltd concluded an agreement for partial sale of shares in Secapital S.a.r.l., the Company's subsidiary. The agreement provided for the sale of 27,000 Category A shares with a par value of PLN 1,000 per share, representing 4.4% of the Secapital share capital as at the transaction date, for PLN 40,500 thousand. The carrying amount of the shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 29.700 thousand.

On December 30th 2013, KRUK S.A. and InvestCapital Malta Ltd concluded an agreement for partial sale of shares in Secapital S.a.r.l., the Company's subsidiary. The agreement provided for the sale of 12,250 Category A shares and 50 Category F shares with a par value of PLN 1,000 per share, representing 2.4% of Secapital S.a.r.l.'s share capital as at the transaction date, for PLN 18,819 thousand. The carrying amount of the shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 13.530 thousand.

31. Events subsequent to the balance-sheet date

On January 24th 2014, the Parent was notified that the Series T1 notes, with a total value of PLN 150,000 thousand, had been admitted to trading on the Catalyst market.

Piotr Krupa
President of the Management Board

Agnieszka Kułton
Member of the Management Board

Urszula Okarma
Member of the Management Board

Iwona Słomska
Member of the Management Board

Michał Zasępa
Member of the Management Board

Katarzyna Raczkiewicz
Person responsible for maintaining
the *accounting records*

Wrocław, March 3rd 2014