The KRUK Group

Consolidated financial statements

for the year ended December 31st 2014

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

The KRUK Group

December 31st 2014

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Consolidated statement of financial position

As at December 31st 2014,
PLN '000

	Note	Dec 31 2014	Dec 31 2013
Assets			
Cash and cash equivalents	*21*	70,545	35,258
Trade receivables	*20*	10,949	9,045
Current tax asset		-	-
Investments in debt portfolios and loans	*17*	1,380,179	1,063,841
Other receivables	*20*	16,534	17,768
Inventories	*19*	524	529
Property, plant and equipment	*14*	20,265	20,079
Other intangible assets	*15*	11,018	10,408
Goodwill	*16*	1,024	1,024
Deferred tax asset	*18*	3,539	2,421
Other assets		2,070	2,452
Total assets		1 516 647	1,162,825
Equity and liabilities			
Liabilities			
Hedge derivatives	*28*	2,668	634
Trade and other payables	*27*	60,613	35,572
Employee benefit obligations	*25*	27,646	23,242
Current tax liability		1,724	99
Liabilities under borrowings and other debt instruments	*24*	838,649	687,459
Liabilities	*26*	264	264
Total liabilities		931,564	747,270
Equity			
Share capital	*22*	17,110	16,959
Share premium		53,249	47,381
Cash flow hedging reserve		-	(634)
Translation reserve		(3,859)	(7,726)
Other capital reserves		55,624	48,289
Retained earnings		462,893	311,157
Equity attributable to owners of the Parent		585 017	415,426
Non-controlling interests		66	129
Total equity		585,083	415,555
Total equity and liabilities		1,516,647	1,162,825

Consolidated statement of profit or loss

For the year ended December 31st 2014
PLN '000

	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Revenue	*7*	487,920	405,611
Other income	*8*	1,869	3,482
Employee benefits expense	*10*	(137,246)	(116,452)
Depreciation and amortisation expense	*14,15*	(11,358)	(9,329)
Services		(41,302)	(48,437)
Other expenses	*9*	(91,722)	(81,930)
		(281,628)	(256,148)
Operating profit		208,161	152,945
Finance income	*11*	1,392	428
Finance costs	*11*	(56,715)	(54,886)
Net finance costs		(55,323)	(54,458)
Profit before tax		152,838	98,487
Income tax	*12*	(1,036)	(733)
Net profit for the period		151,802	97,754
Net profit attributable to:			
Owners of the Parent		151,736	97,625
Non-controlling interests		66	129
Net profit for the period		151,802	97,754
Total comprehensive income attributable to:			
Owners of the Parent		155,603	93,039
Non-controlling interests		66	129
Total comprehensive income for the period		155,669	93,168
Earnings/(loss) per share			
Basic (PLN)	*23*	8.95	5.77
Diluted (PLN)	*23*	8.72	5.66

Consolidated statement of comprehensive income

For the year ended December 31st 2014
PLN '000

		Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Net profit for the period		151,802	97,754
Other comprehensive income			
Items that may be reclassified to profit or loss			
Translation reserve		3,867	(3,952)
Cash flow hedges		-	(634)
Income tax on other comprehensive income		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Income tax on other comprehensive income		-	-
Other comprehensive income, net, for the period		3,867	(4,586)
Total comprehensive income for the period		155,669	93,168
Total comprehensive income attributable to:			
Owners of the Parent		155,603	93,039
Non-controlling interests		66	129
Total comprehensive income for the period		155,669	93,168
Comprehensive income/(loss) per share			
Basic (PLN)	*23*	9.18	5.51
Diluted (PLN)	*23*	8.94	5.41

Consolidated statement of changes in equity

For financial year ended December 31st 2014
(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 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										
- Exchange differences on translating foreign operations		-	-	-	(3,952)	-	-	(3,952)	-	(3,952)
- Valuation of hedging instruments		-	-	(634)	-	-		(634)	-	(634)
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)
- Share-based payments		-	-	-	-	2,578	-	2,578	-	2,578
- Issue of shares		59	2,274	-	-	-	-	2,333	-	2,333
Total contributions from and distributions to owners		59	2,274	-	-	2,578	-	4,911	129	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
Equity as at Jan 1 2014		16,959	47,381	(634)	(7,726)	48,289	311,157	415,426	129	415,555
Comprehensive income for the period										
Net profit for the period		-	-	-	-	-	151,736	151,736	66	151,802
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	3,867	-	-	3,867	-	3,867
- Valuation of hedging instruments		-	-	634	-	-	-	634	-	634
Total other comprehensive income		-	-	634	3,867	-	-	4,501	-	4,501
Total comprehensive income for the period		-	-	634	3,867	-	151,736	156,237	66	156,303
Contributions from and distributions to owners										
- Payment of dividend		-	-	-	-	-	-	-	(129)	(129)
- Issue of shares	*22*	151	5,868	-	-	-	-	6,019	-	6,019
- Share-based payments	*22*	-	-	-	-	7,335	-	7,335	-	7,335
Total contributions from and distributions to owners		151	5,868	-	-	7,335	-	13,354	(129)	13,225
Total equity as at Dec 31 2014		17,110	53,249	-	(3,859)	55,624	462,893	585,017	66	585,083

Consolidated statement of cash flows

For the year ended December 31st 2014
PLN '000

	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Cash flows from operating activities			
Net profit for the period		151,802	97,754
Adjustments			
Depreciation of property, plant and equipment	*14*	7,102	6,035
Amortisation of intangible assets	*15*	4,256	3,294
Net finance costs		48,055	48,681
(Gain)/loss on sale of property, plant and equipment		(146)	(99)
Equity-settled share-based payments		7,335	2,578
Income tax		1,036	733
Change in other investments	*17*	(3,553)	(3,413)
Change in debt portfolios purchased	*17*	(308,283)	(184,368)
Change in inventories		5	350
Change in receivables		(670)	(9,634)
Change in prepayments and accrued income		382	(70)
Change in trade and other payables		27,075	(2,197)
Change in employee benefit obligations		4,404	4,599
Income tax paid		(529)	(1,424)
Net cash from operating activities		(61,729)	(37,181)
Cash flows from investing activities			
Interest received		525	428
Sale of intangible assets and property, plant and equipment		170	693
Purchase of intangible assets and property, plant and equipment		(8,471)	(8,648)
Net cash from investing activities		(7,776)	(7,527)
Cash flows from financing activities:			
Net proceeds from issue of shares		6,018	2,333
Proceeds from issue of debt securities		45,000	250,000
Increase in borrowings		776,493	607,843
Repayment of borrowings		(541,056)	(668,469)
Payments under finance lease agreements		(3,133)	(2,484)
Payment of dividend		(129)	(156)
Redemption of debt securities		(129,904)	(101,500)
Interest paid		(48,497)	(50,330)
Net cash from financing activities		104,792	37,237
Total net cash flows		35,287	(7,471)
Cash and cash equivalents at beginning of period		35,258	42,729
Cash and cash equivalents at end of period	*21*	70,545	35,258

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1. Parent

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

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

Registration in the National Court Register
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland
Date of entry: September 7th 2005
Entry number: KRS 0000240829

Principal business activities of the Parent and subsidiaries
The principal business activities of the Parent and its subsidiaries consist primarily in the restructuring and recovery of debts purchased by the Group companies and the provision of outsourced debt collection services to financial institutions and other clients.

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 information agency which stores, manages and provides credit information on consumers and businesses.
These consolidated financial statements for the reporting period ended December 31st 2014 include the financial statements of the Parent and its subsidiaries (jointly the "Group").
KRUK S.A. is the Parent of the Group. The list of subsidiaries is presented below.

PLN '000	Country	Share capital held (%) Dec 31 2014	Dec 31 2013
Secapital S.a.r.l. **	Luxembourg	84.4%	93.8%
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%
ProsperoCapital Sp.z.o.o.	Poland	100%	-
KRUK International Z.r.t. (in liquidation)	Hungary	100%	100%
InvestCapital Malta Ltd **	Malta	99.5%	99.5%
RoCapital IFN S.A.	Romania	99.0%	-
Kruk Deustschland Gmbh	Germany	100%	-

* Subsidiaries of Secapital S.a.r.l.

** Subsidiaries in which the Parent indirectly holds 100% of the share capital

2. Preparation of consolidated financial statements

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union (the "EU-IFRS"). The Group has not elected the option, available in the case of application of the EU-endorsed IFRSs, of applying IFRIC 21 starting from annual periods beginning on January 1st 2015 and of applying amendments to IFRS 2 and IFRS 3 introduced as part of the Annual Improvements to IFRSs Cycle 2010-2012 starting from annual periods beginning on January 1st 2016. The EU-IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some of the Group companies keep their accounts in accordance with the accounting policies defined in the Polish Accountancy Act of September 29th 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards"). In these consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRS, which are not disclosed in their own books of account.

These consolidated financial statements were approved for issue by the Management Board of the Parent (the "Management Board") on March 6th 2015.

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

b) Basis of preparation

These consolidated financial statements have been prepared for the reporting period from January 1st to December 31st 2014. The comparative data have been presented as at December 31st 2013 and for the period from January 1st to December 31st 2013.

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 assets

The Company 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 as at the measurement date is determined on the basis of reliably estimated value, calculated using an estimation model relying on expected discounted cash flows.

The expected cash flows can be estimated with the use of comparative and statistical methods (statistical analysis), behavioural methods or based on the legal and economic analysis of individual claims or debtors (case-by-case analysis). The method for estimating cash flows under a debt portfolio is selected based on the available profiles of individual debtors and claims, as well as historical data collected in the course of managing the portfolio.

- Note 3c)(iii) 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.
The fair value of interest rate swap contracts is determined by reference to the future cash flows under the contracts calculated based on the difference between the projected 3M WIBOR and the actual 3M WIBOR as at the transaction date. In calculating the fair value, the Group uses 3M WIBOR projections provided by an external firm.

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 17 Investments
- Note 28 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. The Fund is managed by KRUK TFI, a Group company wholly owned by the Parent.

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 a 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 assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity

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

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

Financial assets held to maturity are measured at amortised cost using the effective interest rate method.

Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting date.

Financial assets at fair value through profit or loss

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

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

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

b) it is designated as such upon initial recognition in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value at the reporting date, less cost to sell. Any changes in the value of such instruments are recognised in the statement of profit or loss/statement of comprehensive income as finance income (net fair value gain) or costs (net fair value loss). If a contract contains one or more embedded derivatives, the entire hybrid contract can be designated as a financial asset at fair value through profit or loss, unless the embedded derivative does not significantly modify the contractual cash flows or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited. A financial asset may be designated as a financial asset at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or (ii) the asset is part of a group of financial assets that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the asset contains embedded derivatives which should be presented separately.

Purchased debt portfolios

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

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

The Group measures debt portfolios purchased prior to January 1st 2014 at least four times in 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 expected discounted cash flows, including recoveries and collection costs at market rates.

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

Loans and receivables include cash and cash equivalents, loans advanced, trade receivables and debt portfolios purchased on or after January 1st 2014.

Purchased debt portfolios

As of January 1st 2014, all purchased debt portfolios are classified as loans and receivables, to better reflect the portfolio management strategy focused on maximising recoveries.

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost equal to the fair value of the consideration transferred increased by any material transaction cost.

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

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

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

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

Cash

Cash and cash equivalents comprise cash in hand and cash at banks on demand 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 assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the three asset categories specified above. Financial assets available for sale are recognised at fair value plus transaction costs directly attributable to the acquisition or issue of a given asset. Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of deferred tax, are recognised in other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment is recorded as finance cost.

Purchase and sale of financial assets are recognised at the transaction date. Initially, a financial asset is recognised at its fair value, plus, for financial assets other than classified as financial assets at fair value through profit and loss, transaction costs which are directly attributable to the purchase.

Financial assets are derecognised if the Group loses control of contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

(ii) 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.

(iii) 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.

The effect of fair value measurement of an instrument is recognised directly in profit or loss.

(iv) 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)	10-14	years
Plant and equipment	3–10	years
Vehicles	4-5	years

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

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	1-5 years

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

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

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.

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

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

Estimated cash flows from debt portfolios are divided into principal recoveries and interest determined at the discount rate. Recovered principal is recognised as a reduction of 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.

Revenue from debt portfolios measured at amortised cost

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

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate calculated as specified above, and is recognised in profit or loss of the current period. All interest income is recognised as an increase in the portfolio value. The actual cash flows received from collections during the period are recognised as a decrease in the portfolio value. Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash flows for the portfolio are disclosed as revenue earned in a given period.

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

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 2014 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 Company's financial statements. The Group intends to apply them to the periods for which they are effective for the first time.

Amendments to current standards and interpretations

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the "EU IFRS") apply to reporting periods beginning on January 1st 2014:

- *IFRS 10 Consolidated Financial Statements and Separate Financial Statements*

IFRS 10 replaces the part of the former IAS 27 Consolidated and Separate Financial Statements concerning consolidated financial statements, and introduces a new definition of control. IFRS 10 may cause changes within a consolidated group with respect to the possibility of consolidating entities which have been consolidated so far, or conversely, does not introduce any changes in consolidation procedures or transaction accounting methods in consolidated financial statements.

These changes had no impact on the Group's financial position or results of operation.

- *IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures*

IFRS 11 relates to joint arrangements. It defines two categories of joint arrangements: joint operations and joint ventures, and indicates the appropriate methods to account for them.

Application of the standard may result in a change of the method of accounting for joint arrangements (for instance, arrangements previously classified as jointly-controlled entities and accounted for using the proportional consolidation method may now be classified as joint ventures, which are accounted for using the equity method).

IAS 28 has been amended and provides guidelines for applying the equity method to account for joint ventures.

These changes had no impact on the Group's financial position or results of operation.

- *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 requires a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements or associates. Application of this standard may result in more extensive disclosures in the financial statements, including for instance:

- key financial information, including information on the risks associated with the Group's undertakings,
- disclosure of interests in unconsolidated structured entities and the risks associated with such investments,
- information on each undertaking in which there are material non-controlling interests,
- disclosure of any significant judgements and assumptions made in classifying an entity as a subsidiary, a jointly-controlled entity or an associate.

These changes had no impact on the Group's financial position or results of operation.

- Investment Entities *− Amendments to IFRS 10, IFRS 12 and IAS 27*

These amendments introduce the concept of investment entities which are exempt from the requirement to consolidate subsidiaries, instead measuring those investments at fair value through profit or loss.

These changes had no impact on the Group's financial position or results of operation.

- *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

The amendments to IAS 32 clarify the concept and the consequences of a legally enforceable right to set off a financial asset and a financial liability, and provide additional guidelines as to the offsetting criteria for gross settlement systems (such as clearing houses).

These changes had no impact on the Group's financial position or results of operation.

- *Recoverable Amount Disclosures for Non-Financial Assets − Amendments to IAS 36*

These amendments removed the unintended consequences of IFRS 13 concerning disclosures required under IAS 36. Also, these amendments have additionally introduced the requirement of disclosure of the recoverable amount of an asset or cash-generating unit (CGU) for which impairment loss was recognised or reversed in the period if the value in use was determined as fair value less costs to sell.

These changes had no impact on the Group's financial position or results of operation.

- *Novation of Derivatives and Continuation of Hedge Accounting − Amendments to IAS 39*

Under the amendments to IAS 39, there is no need to discontinue hedge accounting if a hedging derivative was novated, provided that certain criteria specified in IAS 39 are met.

These changes had no effect on the Group's financial position or performance or on the scope of information presented in the Group's condensed consolidated financial statements.

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

- IFRS 9 Financial Instruments (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018; until the date of approval of these financial statements, the standard has not been adopted by the EU; as at the date of approval of these financial statements, the process of adoption of the standard for application within the EU was discontinued,

- IFRIC 21 Levies (published on May 20th 2013) – effective for annual periods beginning on or after January 1st 2014; within the EU, effective at the latest for annual periods beginning on or after September 17th 2014,

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on November 21st 2013) – effective for annual periods beginning on or after July 1st 2014; not adopted by the EU by the date of approval of these financial statements,

- Amendments to IFRS introduced as part of the 2010-2012 improvements cycle (published on December 12th 2013) – some of the amendments are effective for annual periods beginning on or after July 1st 2014, while some are effective prospectively for transactions entered into on or after July 1st 2014; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to the IFRS introduced as part of the 2011-2013 improvements cycle (published on December 12th 2013) – effective for annual periods beginning on or after July 1st 2014; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- IFRS 14 Regulatory Deferral Accounts (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of this standard; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (published on May 6th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (published on May 12th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014) – effective for annual periods beginning on or after January 1st 2017; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on September 30th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 27 Equity Method in Separate Financial Statements (published on August 12th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (published on September 11th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 1 − Disclosure Initiative (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

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 a reasonable profit margin based on expenditures incurred.

(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.

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. The average time to exercise acquired subscription warrants is 1.4 years.

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 28 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.

<u>Trade and other receivables</u>

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 0.35% of the Group's total revenue (2013: 2.03%). Receivables from the Group's largest client represented 7.09% of total trade receivables, VAT inclusive, as at December 31st 2014 (December 31st 2013: 1.74%). Therefore, there is no significant concentration of credit risk at the Group.

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

Purchased debt portfolios

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

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

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

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

- Debt
  - outstanding amount
  - principal
  - principal to debt ratio
  - amount of credit granted / total amount of invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).
- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form
  - debtor's death or bankruptcy
  - debtor's employment.
- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforced collection order
  - court collection
  - bailiff collection.

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

The Group minimises the risk by performing a thorough valuation of each portfolio before it is purchased, taking into account the likelihood of recovery of invested capital and the estimated costs of the collection process. Debt portfolios are purchased at official auctions, and prices offered by the Group in most of such auctions do not differ significantly from prices offered by the Group's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.

The market value of a portfolio and its maximum purchase price are determined based on a complex statistical and economic analysis. Initially, portfolios are divided into sub-portfolios based on debt amount and type of security. This is done to select debts which can be valued using statistical methods. Remaining sub-portfolios are valued on a case-by-case basis in a due diligence process.

Proceeds are estimated based on a statistical model developed on the basis of available and precisely selected reference data matching the valuation data. The reference data is derived from a database containing information on portfolios previously purchased and collected by the Group.

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

Moreover, the Group diversifies the risk by purchasing various types of debt, with varying degrees of problems and delinquency periods.

The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:

- Assessment of a client's creditworthiness prior to proposing payment dates and other terms of cooperation;
- Regular monitoring of timely payment of debt;
- Maintaining a diversified client base.

The KRUK Group analyses the risk attached to the debt portfolios it purchases using advanced tools of economic and statistical analysis and its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis.

As at the date of this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on the Group's liquidity, but no assurance can be given that such a situation will not occur in the future.

Debt collection tools used include:

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

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 the necessary funding, the Group relies on external financing in the form of bank borrowings or notes.

The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation.

Liquidity risk management tools used at the Group include:

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

Market risk

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

In the Management Board's opinion, for the Group the market risk relates primarily to exposure to the risk of changes in the PLN/RON and PLN/CZK exchange rate, given the Group's considerable investments in debt portfolios denominated in RON and CZK. 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 2014, assets denominated in foreign currencies accounted for 21.90% of total assets, while liabilities denominated in foreign currencies represented 6.30% of total liabilities (December 31st 2013: 32.62% and 1.55% respectively).

The Group uses financial instruments to hedge its interest rate risk (see Note 3c (ii)).

In order to minimise currency risk, a compartment (or a distinct part of business for which separate accounts are maintained) was established within subsidiary Secapital S.à.r.l., whose purpose is to purchase debt portfolios denominated in the Romanian leu (RON). Therefore RON is the functional currency of the new compartment. The decision was made based on the prevailing conditions in the Group's economic environment, in order to reflect the actual economic transactions, developments and factors as accurately as possible. This approach is consistent with IAS 21 which requires each individual entity preparing separate financial statements to determine its functional currency, being the currency in which the majority of its cash flows are generated, and measure its results, assets and financial position in that currency.

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 2014 to December 31st 2014 this ratio, computed as the ratio of net profit for the reporting period to equity less net profit, was 35.04% (2013: 30.8%). To compare, the weighted average rate of interest expense on interest-bearing debt (excluding liabilities with an assumed interest rate) was 5.18% (2013: 6.91%).

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 1.43 as at December 31st 2014 (December 31st 2013: 1.65).

In the reporting period from January 1st 2014 to December 31st 2014, there were no changes in the Group's approach to capital management.

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 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue	**487,920**	**405,611**
Purchased debt portfolios	442,374	355,733
Credit management	31,729	39,933
Other products	13,817	9,945
Direct and indirect costs	**(193,983)**	**(182,757)**
Purchased debt portfolios	(166,510)	(153,384)
Credit management	(19,368)	(21,236)
Other products	(8,105)	(8,137)
Gross profit	**293,937**	**222,854**
Purchased debt portfolios	275,864	202,349
Credit management	12,361	18,697
Other products	5,712	1,808
Administrative expenses	(72,389)	(60,437)
Depreciation and amortisation expense	(11,358)	(9,329)
Other income	1,869	3,482
Other expenses (unallocated)	(3,898)	(3,625)
Finance income/costs	(55,323)	(54,458)
Profit before tax	152,838	98,487
Income tax	(1,036)	(733)
Net profit	151,802	97,754

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 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue	**487,920**	**405,611**
Poland	284,389	223,475
Romania	182,663	180,019
Other foreign markets	20,868	2,117

Non-current assets

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Poland	23,561	24,943
Romania	8,006	5,616
Other foreign markets	740	952
	32,304	31,511

7. Revenue

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue from debt purchase	442,374	355,733
Revenue from credit management	31,729	39,933
Revenue from other services	13,817	9,945
	487,920	405,611

<u>Revenue from debt purchase</u>

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	453,654	-
Revaluation of debt portfolios	7,548	-
Cost of debts sold (*)	(18,828)	-
	442,374	-

(*) Related to the sale of a portion of the corporate debt portfolio

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	(10,214)	-
Change due to change in discount rate	17,762	-
	7,548	-

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	411,881	368,978
Revaluation of debt portfolios	27,690	(13,245)
Cost of debts sold (*)	(6,091)	-
	433,480	355,733

(*) Related to the sale of a portion of the corporate debt portfolio

Revaluation of debt portfolios measured at fair value

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	9,928	(27,604)
Change due to change in discount rate	17,762	14,359
	27,690	(13,245)

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 applied;
- exchange rate movements against PLN (for debt portfolios not measured in the functional currency).

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

Revenue from debt portfolios measured at amortised cost

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	41,773	-
Revaluation of debt portfolios	(20,142)	-
Cost of debts sold (*)	(12,737)	-
	8,894	-

(*) Related to the sale of a portion of the corporate debt portfolio

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	(20,142)	-
Change due to change in discount rate	-	-
	(20,142)	-

Revenue from credit management

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 5.43% of total revenue from fee-based credit management (2013: 20.61%).

8. Other income

PLN '000	*Note*	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Reversal of impairment losses on receivables	*28*	71	2
Return of compensation for damage caused by motor vehicles		725	654
Gain on sale of property, plant and equipment		146	99
Re-billed costs of services and court fees		171	842
Liabilities written off		555	1,794
Other		201	91
		1,869	3,482

9. Other expenses

PLN '000	*Note*	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Court fees		(38,618)	(40,082)
Advertising		(9,184)	(8,005)
Raw materials and energy used		(10,208)	(9,326)
Taxes and charges		(24,753)	(15,797)
Impairment losses on receivables	*28*	(148)	(337)
Staff training		(1,923)	(1,252)
Business trips		(1,840)	(2,081)
Entertainment expenses		(953)	(747)
Motor insurance		(1,077)	(982)
Losses from damage caused by motor vehicles		(704)	(665)
Property insurance		(451)	(1,419)
Other		(1,863)	(1,237)
		(91,722)	(81,930)

10. Employee benefits expense

PLN '000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Salaries and wages	(104,842)	(92,299)
Other social security contributions	(3,838)	(8,796)
Old-age and disability pension contributions (defined contribution plans)	(20 132)	(11,659)
Contribution to the State Fund for the Disabled	(1,099)	(1,120)
Equity-settled cost of stock option plan	(7,335)	(2,578)
	(137,246)	(116,452)

11. Finance income and expenses

Recognised as profit or loss for current period

Finance income

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income on bank deposits	525	428
Net foreign exchange gains/(losses)	867	-
	1,392	428

Finance costs

Interest expense on financial liabilities measured at amortised cost	(49,181)	(48,959)
Settlement of discount	(4,866)	-
Remeasurement of investments	(2,668)	-
Net foreign exchange gains/(losses)	-	(5,927)
	(56,715)	(54,886)
Net finance costs recognised in profit or loss	(55,323)	(54,458)

Recognised under other comprehensive income

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Exchange differences on translating foreign operations	3,867	(3,952)
Attributable to:		
Owners of the Parent	3,867	(3,952)
Finance cost recognised directly in other comprehensive income	3,867	(3,952)

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	***Note***	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Income tax (current expense)			
Income tax for the period		(2,136)	(1,551)
Income tax (deferred expense)			
Origination/reversal of temporary differences	*18*	1,100	818
		(1,036)	(733)

Reconciliation of effective tax rate

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Net profit for the period	151,802	97,754
Income tax recognised in the income statement	(1,036)	(733)
Pre-tax profit for the period (assuming 19% tax rate)	154,621	99,363
Pre-tax profit for the period (assuming 16% tax rate)	273	719
Pre-tax loss for the period (assuming 19% tax rate)	(2,056)	(1,595)
Tax calculated at the tax rate applicable in Poland (19%)	(146,119)	(12,722)
Tax calculated at the tax rate applicable in Romania (16%)	-44%	115
Tax calculated at the tax rate applicable in the Czech Republic (19%)	(60)	303
Effect of non-deductible expenses	46,477	(26,766)
Effect of tax-exempt income	98,710	38,337
Change in temporary differences not recognised in deferred tax expense	-	-
	(1,036)	(733)

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 foreign securitisation entity).

13. Current and non-current assets

As at December 31st 2014

PLN '000

	Dec 31 2014	Dec 31 2013
Assets		
Non-current assets		
Property, plant and equipment	20,265	20,079
Other intangible assets	11,018	10,408
Goodwill	1,024	1,024
Deferred tax asset	3,539	2,421
Investments in debt portfolios and loans	431,479	614,249
Total non-current assets	467 325	648,181
Current assets		
Inventories	524	529
Investments in debt portfolios and loans	948,700	449,592
Trade receivables	10,949	9,045
Current tax asset	-	-
Other receivables	16,534	17,768
Prepayments and accrued income	2,070	2,452
Cash and cash equivalents	70,545	35,258
Total current assets	1,049,322	514,644
Total assets	1,516,647	1,162,825
Equity and liabilities		
Equity		
Share capital	17,110	16,959
Share premium	53,249	47,381
Cash flow hedging reserve	-	(634)
Translation reserve	(3,859)	(7,726)
Other capital reserves	55,624	48,289
Retained earnings	462,893	311,157
Equity attributable to owners of the Parent	585,017	415,426
Non-controlling interests	66	129
Total equity	585,083	415,555
Non-current liabilities		
Non-current liabilities under borrowings and other debt instruments	718,856	512,817
Hedge derivatives	2,668	634
Total non-current liabilities	721,524	513,451
Current liabilities		
Current liabilities under borrowings and other debt instruments	119,793	174,642
Trade and other payables	60,613	35,572
Current tax liability	1,724	99
Employee benefit obligations	27,646	23,242
Current provisions	264	264
Total current liabilities	210,040	233,819
Total liabilities	931,564	747,270
Total equity and liabilities	1,516,647	1,162,825

14. 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 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	0	0	(15)	0
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

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2014	1,958	15,480	18,632	2,374	82	38,526
Purchase	-	1,553	5,733	219	64	7,569
Sale/ liquidation	(1,020)	(748)	(1,542)	(162)	-	(3,472)
Reclassification of tangible assets under construction	-	-	-	-	-	-
Effect of exchange rate changes	-	(23)	(37)	(10)	-	(70)
Gross value as at Dec 31 2014	938	16,262	22,786	2,421	146	42,553

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 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)	0	(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**
Accumulated depreciation and impairment losses as at Jan 1 2014	(1,449)	(9,142)	(6,520)	(1,336)	-	(18,447)
Depreciation and amortisation expense	(24)	(2,338)	(4,306)	(434)	-	(7,102)
Decrease resulting from sale/ liquidation	1,071	745	1,406	122	-	3,344
Effect of exchange rate changes	(13)	(55)	(5)	(10)	-	(83)
Accumulated depreciation and impairment losses as at Dec 31 2014	(415)	(10,790)	(9,425)	(1,658)	-	(22,288)

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 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
As at Jan 1 2014	509	6,338	12,112	1,038	82	20,079
As at December 31st 2014,	523	5,472	13,361	763	146	20,265

Property, plant and equipment under leases

Under finance lease agreements, the Group uses passenger cars and trucks whose carrying amount as at December 31st 2014 and December 31st 2013 was PLN 13,362 thousand and PLN 11,320 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 2014, 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 2014 and December 31st 2013, the value of tangible assets under construction was PLN 146 thousand and PLN 82 thousand, respectively.

15. Intangible assets

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Gross value of intangible assets			
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
Gross value as at Jan 1 2014	20,976	369	21,345
Produced internally	1,287	-	1,287
Other increase	3,614	-	3,614
Decrease	(2,257)	-	(2,257)
Effect of exchange rate changes	45	-	45
Gross value as at Dec 31 2014	23,665	369	24,034

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2013	(7,473)	(322)	(7,795)
Amortisation expense	(3,247)	(47)	(3,294)
Decrease	1	-	1
Effect of exchange rate changes	151	-	151
Accumulated amortisation and impairment losses as at Dec 31 2013	(10,568)	(369)	(10,937)
Accumulated amortisation and impairment losses as at Jan 1 2014	(10,568)	(369)	(10,937)
Depreciation and amortisation expense	(4,256)	-	(4,256)
Effect of exchange rate changes	4	-	4
Decrease	2,173	-	2,173
Accumulated amortisation and impairment losses as at Dec 31 2014	(12,647)	(369)	(13,016)

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Net value			
As at Jan 1 2013			
As at Dec 31 2013	7,599	47	7,646
	10,408	-	10,408
As at Jan 1 2014			
As at December 31st 2014,	10,408	-	10,408
	11,018	-	11,018

16. Goodwill

PLN '000	RAVEN Law Firm	Rejestr Dłużników ERIF BIG S.A.	Total
Gross value			
Gross value as at Jan 1 2013	299	725	1,024
Gross value as at Dec 31 2013	299	725	1,024
Gross value as at Jan 1 2014	299	725	1,024
Gross value as at Dec 31 2014	299	725	1,024
Net value			
As at Jan 1 2013	299	725	1,024
As at Dec 31 2013	299	725	1,024
As at Jan 1 2014	299	725	1,024
As at December 31st 2014,	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 amount of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units.

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).

17. Investments

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Investments		
Financial assets at fair value through profit or loss	861,775	1,053,913
Financial assets measured at amortised cost	504,762	-
Other investments	161	-
Loans advanced	13,481	9,928
	1,380,179	1,063,841

Financial assets at fair value through profit or loss (designated as such at the time of initial recognition) include purchased debt portfolios.

As of January 1st 2014, all purchased debt portfolios are classified as loans and receivables, to better reflect the portfolio management strategy focused on maximising recoveries. Portfolios measured at amortised cost are classified as loans and receivables.

For the rules governing valuation of purchased debt portfolios, see Note 3(b)(i). Purchased debt portfolios are divided into the following main categories:

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Purchased debt portfolios		
Bank loans, including:	1,323,093	998,927
- consumer loans	*1,019,095*	*972,308*
- car loans	*4,112*	*5,268*
- mortgage loans	*299,886*	*21,351*
Telecommunication bills	23,834	31,720
Cash loans (non-bank)	109	1,704
Mixed portfolios	19,501	21,562
	1,366,537	1,053,913

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

	Dec 31 2014	**Dec 31 2013**
Discount rate		
- risk-free*	0.4325%-2.3%	0.733%-4.00%
- risk premium**	9.48% - 321.14%	6.25% - 335.27%
Period for which cash flows have been estimated:	Jan 2014 - Dec 2024	Jan 2014 - Dec 2023
Nominal value of expected future cash flows	2,455,032	2,105,311

** Vary by market.*

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

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

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Period		
Less than 6 months	315,217	276,177
From 6 to 12 months	289,839	259,638
From 1 to 2 years	510,307	474,542
From 2 to 5 years	1,095,151	826,772
Over 5 years	244,518	268,181
	2,455,032	2,105,310

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios).

If necessary, as at the end of each quarter the Group updates the following parameters which are used to estimate the future cash flows:
- 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 reduces fair value of debt portfolios;
- value of expected future cash flows estimated using the current data and debt collection tools - a growth in the value of expected future cash flows means an increase in fair value.

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 2013	**873,497**
Purchase of debt portfolios	367,188
Purchase price adjustment for discount	(465)
Cash recoveries	(537,727)
Increase/(decrease) in 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**
Purchased debt portfolios as at Jan 1 2014	**1,053,913**
Purchase of debt portfolios	575,105
Purchase price adjustment for discount	(4,419)
Cash recoveries	(711,841)
Increase/(decrease) in liabilities to debtors due to overpayments	574
Valuation of loyalty scheme	2,080
Revenue from debt purchase (interest and revaluation)	442,374
Fair value translation differences (*)	8,751
Purchased debt portfolios as at Dec 31 2014	**1,366,537**

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

In 2010, the Company 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. Their average nominal interest rate is 16%. Additional revenue comprises commission fees, arrangement fees and insurance fees.

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18. 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 2014	**Dec 31 2013**	**Dec 31 2014**	**Dec 31 2013**	**Dec 31 2014**	**Dec 31 2013**
Property, plant and equipment	1,488	1,649	(1,557)	(1,621)	(69)	28
Intangible assets	-	-	(1,500)	(1,351)	(1,500)	(1,351)
Financial assets at fair value through profit or loss	1,800	634	-	-	1,800	634
Trade and other receivables	93	-	(127)	(380)	(34)	(380)
Employee benefit obligations	2,809	2,429	-	-	2,809	2,429
Provisions and liabilities	381	638	-	-	381	638
Other	152	423	-	-	152	423
Tax loss carry forwards	-	-	-	-	-	-
Deferred tax assets/liabilities	6,723	5,773	(3,184)	(3,352)	3,539	2,421
Deferred tax assets offset against liabilities	(3,184)	(3,352)	3,184	3,352	-	-
Deferred tax assets/liabilities in the statement of financial position	3,539	2,421	-	-	3,539	2,421

Change in temporary differences in a period

PLN '000	As at Jan 1 2013	Change in temporary differences recognised as profit or loss of the current period	As at Dec 31 2013	As at Jan 1 2014	Change in temporary differences recognised as profit or loss of the current period	As at Dec 31 2014
Property, plant and equipment	(1,463)	1,491	28	28	(97)	(69)
Intangible assets	(1,106)	(245)	(1,351)	(1,351)	(149)	(1,500)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Loans advanced to other entities	-	634	634	634	1,166	1,800
Trade and other receivables	(311)	(69)	(380)	(380)	346	(34)
Employee benefit obligations	2,046	383	2,429	2,429	380	2,809
Provisions and liabilities	1,992	(1,354)	638	638	(257)	381
Other	321	102	423	441	(289)	152
Tax loss carry forwards	124	(124)	-	-	-	-
	1,603	818	2,421	2,439	1,100	3,539

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 2014**	**Dec 31 2013**
Tax loss for 2011	Dec 31 2016	93	93
Tax loss for 2012	Dec 31 2017	361	361
Tax loss for 2013	Dec 31 2018	1,032	1,032
Tax loss for 2014	Dec 31 2019	1,277	-
		2,763	1,486
Applicable tax rate		19%	19%
Potential benefit of tax losses		525	282

Deferred tax assets of PLN 525 thousand (December 31st 2013: PLN 282 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 2014 and December 31st 2013, 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 2014, KRUK Česká a Slovenská republika s.r.o. incurred a tax loss of PLN 0 thousand (December 31st 2013: PLN 8,394 thousand).

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2014**	**Dec 31 2013**
Tax loss for 2011	Dec 31 2016	-	1,244
Tax loss for 2012	Dec 31 2017	203	9,210
Tax loss for 2013	Dec 31 2018	8,394	8,394
Tax loss for 2014	Dec 31 2019	-	-
		8,597	18,848
Applicable tax rate		19%	19%
Potential benefit of tax losses		1,633	3,581

Deferred tax assets of PLN 1,633 thousand (December 31st 2013: PLN 3,581 thousand) were not included in the calculation of deferred tax as the probability of their use is uncertain.

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.

19. Inventories

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Materials	533	462
Prepaid deliveries	-9%	67
	524	529

In the reporting period ended December 31st 2014, the Group did not recognise any write-downs on inventories.

20. Trade and other receivables

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Trade receivables	10,949	9,045
	10,949	9,045

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Taxes receivable (other than income tax)	4,780	7,379
Other receivables	11,754	10,389
	16,534	17,768

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

PLN '000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Change in receivables resulting from statement of financial position	(670)	(8,867)
Current tax receivable	-	(767)
Change in receivables resulting from statement of cash flows	(670)	(9,634)

21. Cash and cash equivalents

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Cash in hand	79	45
Cash in current accounts	70,466	35,213
	70,545	35,258
Restricted cash	37	15

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

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

22. Equity

Share capital

	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
'000		
Number of shares as at Jan 1	16,959	16,900
Issue of shares	151	59
Number of fully-paid shares at end of the period	17,110	16,959
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at Jan 1	16,959	16,900
Par value as at Dec 31	17,110	16,959

Company's shareholding structure as at December 31st 2014

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	2,069,662	2,069	12.09%
ING PTE (*)	1,835,643	1,836	10.73%
Aviva OFE	1,676,165	1,676	9.80%
Generali OFE	1,545,000	1,545	9.03%
Other members of the Management Board	230,841	231	1.35%
Other Shareholders	9,753,371	9,753	57.00%
	17,110,682	17,110	100%

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

As at December 31st 2014, the registered share capital was divided into 17,110 thousand ordinary shares (December 31st 2013: 16,959 thousand). The par value per share was PLN 1 (December 31st 2013: PLN 1).

In 2014, the Company issued shares under a share-based payment plan.

The Management Board of the Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of Resolution No. 576/14 of September 24th 2014, resolved to register 64,501 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 operator of the regulated market agrees to introduce the shares to trading on the regulated market on which other Company shares are traded under ISIN code No. PLKRK0000010.

On July 8th 2014, the Management Board of Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange) passed Resolution No. 781/2014 to admit and introduce the Series E ordinary bearer shares to trading on the WSE main market. In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1-2 of the WSE Rules, 64,501 Series E ordinary bearer shares with a par value of PLN 1.00 per share were admitted to trading on the main market. Further, under the Resolution, pursuant to Par. 38.1 and Par. 38.3 of the WSE Rules, the WSE Management Board decided to introduce the Company shares referred to above to trading on a regulated market on July 10th 2014 provided that on the same day the Polish National Depository for Securities registers the shares and assign to them ISIN code No. PLKRK0000010.

On November 14th 2014, the Management Board of Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange) passed Resolution No. 986/2014 to admit and introduce the Series E ordinary bearer shares to trading on the WSE main market. In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1-2 of the WSE Rules, 87,086 Series E ordinary bearer shares with a par value of PLN 1.00 per share were admitted to trading on the main market. Further, under the Resolution, pursuant to Par. 38.1 and Par. 38.3 of the WSE Rules, the WSE Management Board decided to introduce the Company shares referred to above to trading on a regulated market on November 16th 2014 provided that on November 16th 2014 the Polish National Depository for Securities registers the shares and assigns to them ISIN code No. PLKRK0000010.

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

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 profit or loss for 2011, 2012, 2013 and 2014 was PLN 890 thousand, PLN 2,346 thousand, PLN 2,578 thousand and PLN 5,451 thousand, respectively. The amount increased the Company's other capital reserves.

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

The terms of the Option Plan for 2011-2014 were approved by virtue of resolutions of KRUK S.A.'s Extraordinary General Meeting. Under the plan, eligible persons will be granted the right to purchase Company shares on preferential terms defined in the resolution and in the Rules of the Option Plan. The rights will be vested on condition that an eligible person is employed by the Company or its subsidiary or remains in other legal relationship under which they provide services to the Company or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

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

Subscription warrants will be issued in four tranches, one for each year of the reference period, i.e. for the financial years 2011–2014.

The Supervisory Board is authorised to offer subscription warrants to eligible persons for a given financial year, provided that two financial ratios for the Group, 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.

In its Resolution No. 24/2014, dated June 12th 2014, the Company's Supervisory Board determined the list of persons eligible to acquire warrants under Tranche 3 for 2013, which covers 190,651 subscription warrants, including 41,778 warrants offered to and acquired by Members of the Management Board.

On May 28th 2014, the Annual General Meeting of KRUK passed Resolution No. 26/2014 on setting the rules of an incentive scheme for the years 2015-2019, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association. The incentive scheme for 2015-2019 (the "2015-2019 Scheme") was addressed to the key management personnel of the Parent and Group companies.

Under the 2015-2019 Scheme, eligible persons will have the right to acquire Company Series F shares at the price PLN 83.52. The eligible persons comprise members of the Management Board, including the President, as well as Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants is made.

The total cost of the Option Plan charged to profit for 2014 was PLN 1,884 thousand.

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950.00, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014, i.e. PLN 83.52. Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). However, Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the date of subscription for the subscription warrants. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on the condition that the average annual EPS (earnings per share) calculated based on the Group's consolidated financial statement increases.

Under the Scheme, the Company may finance purchase of Series F shares by eligible persons on the terms defined in the resolution. Subscription Warrants may be inherited, but may not be encumbered and are not transferable.

By a resolution of September 2nd 2014, the Management Board approved a list of persons eligible to participate in the 2015−2019 Programme throughout its term.

Exercised warrants

2011–2014 Option Plan	Number of options available under the Plan	Number of priced (offered) options	Number of issued options	Number of exercised options		
				Number of exercised options	including in 2013	including in 2014
2011–2014 Option Plan	**845,016**	**876,689**	**582,199**	**210,342**		
base pool	**650,673**	**650,673**	**457,026**	**168,362**		
2011_tranche	162,690	162,690	161,057	91,896	**51,555**	**40,341**
2012_tranche	162,690	162,690	152,738	76,466		**76,466**
2013_tranche	162,690	162,690	143,231			
2014_tranche	162,603	162,603				
reserve pools	**194,343**	**226,016**	**125,173**	**41,980**		
2011_tranche	48,564	28,733	28,733	18,180	**7,200**	**10,980**
2012_tranche	48,564	49,020	49,020	23,800		**23,800**
2013_tranche	48,564	47,420	47,420			
2014_tranche	48,651	100,843				

Exchange differences on translating subordinates

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

23. Earnings per share

Basic earnings per share

As at December 31st 2014, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 151,736 thousand (2013: PLN 97,625 thousand) and the weighted average number of shares in the period covered by the financial statements of 16,957 thousand (2013: 16,914 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Net profit for the period	151,802	97,754
Non-controlling interests	(66)	(129)
Net profit attributable to owners of the Parent	151,736	97,625

Weighted average number of ordinary shares

'000	*Note*	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Number of ordinary shares as at Jan 1	*23*	16,959	16,900
Effect of retirement and issue		(2)	14
Weighted average number of ordinary shares in the period ended Dec 31		16,957	16,914
PLN			
Earnings per share		8.95	5.77

Diluted earnings per share

As at December 31st 2014, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 151,736 thousand and the weighted average number of shares in the period covered by the financial statements of 17,407 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	*Note*	Dec 31 2014	Dec 31 2013
Weighted average number of ordinary shares in the period ended Dec 31	*23*	16,957	16,914
Effect of issue of non-registered shares not subscribed for		450	323
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)		17,407	17,237
PLN			
Earnings per share (diluted)		8.72	5.66

24. Liabilities under borrowings and other debt instruments

This Note contains information on the Group’s liabilities under borrowings and other debt instruments measured at amortised cost. Information on the Group’s exposure to currency, liquidity and interest rate risks is presented in Note 28.

PLN ’000	**Dec 31 2014**	**Dec 31 2013**
Non-current liabilities		
Secured borrowings	239,846	50,464
Liabilities under debt securities (unsecured)	470,633	454,076
Finance lease liabilities	8,377	8,277
	718,856	512,817
Current liabilities		
Current portion of secured borrowings	96,078	50,044
Liabilities under debt securities (unsecured)	18,859	120,463
Current portion of finance lease liabilities	4,856	4,135
	119,793	174,642

Terms and repayment schedule of borrowings and other debt instruments

PLN ’000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2014**	**Dec 31 2013**
Borrowings secured on the Group's assets	PLN	1M WIBOR + margin 1.0-3.0 pp; 3M WIBOR + margin 2.0 pp; 1M EURIBOR + margin 2.25-2.5 pp	2024	335,924	100,508
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin 3.35-4.6 pp	2020	489,492	574,539
Finance lease liabilities	EUR	3M WIBOR or 1M EURIBOR + margin 0.68-3.7 pp	2018	13,233	12,412
				838,649	687,459

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
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
As at December 31 2014,			
up to 1 year	4,995	139	4,856
from 1 to 5 years	8,588	211	8,377
	13,583	350	13,233

Security over assets

Security over assets

PLN '000	Dec 31 2014	Dec 31 2013
Registered pledge over purchased portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	480,146	158,976
Property, plant and equipment under finance leases	13,362	11,320
	493,508	170,296

25. Employee benefit obligations

PLN '000	Dec 31 2014	Dec 31 2013
Salaries and wages payable	7,874	7,389
Liabilities to the Social Security Institution	4,578	4,061
Personal income tax	1,117	1,027
Accrued holidays	3,581	2,771
Accrued salaries and wages (bonuses)	10,461	7,933
Special accounts	35	61
	27,646	23,242

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2013	1,972
Increase	3,221
Use	(2,422)
Value as at Dec 31 2013	2,771
Value as at Jan 1 2014	2,771
Increase	2,947
Use	(2,137)
Value as at Dec 31 2014	3,581

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2013	6,645
Increase	20,182
Use	(18,741)
Release	(153)
Value as at Dec 31 2013	7,933
Value as at Jan 1 2014	7,933
Increase	21,524
Use	(17,166)
Release	(1,830)
Value as at Dec 31 2014	10,461

26. Current provisions

PLN '000	**Other provisions**
Value as at Jan 1 2013	264
Recognition	-
Value as at Dec 31 2013	264
Value as at Jan 1 2014	264
Recognition	-
Value as at Dec 31 2014	264

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, especially with respect to taxation of management personnel and contractors. 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, tax risk in those countries is higher than in countries with more developed tax regimes. This applies particularly to civil law contracts, which can be reclassified by tax authorities as employment contracts.

The period for which tax settlements may be subject to tax audit is five years in Poland and the Czech Republic and seven years in Romania and Slovakia. In effect, the amounts disclosed in the financial statements may be changed at a later date after they are finally determined by tax authorities.

27. Trade and other payables

Current liabilities *PLN '000*	**Dec 31 2014**	**Dec 31 2013**
Trade payables to other entities	45,773	21,033
Deferred income	1,861	612
Tax and duties payable	7,062	7,474
Accrued expenses	765	4,080
Other liabilities	5,152	2,373
	60,613	35,572

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

28. 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 2014	Dec 31 2013
Financial instruments at fair value through profit or loss	*17*	861,775	1,053,913
Financial assets measured at amortised cost	*17*	504,762	-
Other investments	*17*	161	-
Loans	*17*	13,481	9,928
Receivables	*20*	27,483	26,813
Cash and cash equivalents	*21*	70,545	35,258
		1,478,207	1,125,912

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

PLN '000	Dec 31 2014	Dec 31 2013
Poland	1,170,537	746,566
Romania	270,065	324,058
Czech Republic	37,605	55,288
	1,478,207	1,125,912

Impairment losses

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

PLN '000	Gross value Dec 31 2014	Impairment loss Dec 31 2014	Gross value Dec 31 2013	Impairment loss Dec 31 2013
Not past due	24,800	-	25,366	-
Past due, 0-30 days	928	-	753	-
Past due, 31-90 days	679	-	244	-
Past due, 91-180 days	524	-	180	-
Past due, 181-365 days	188	148	289	19
Past due, over one year	1,212	700	923	923
	28,331	848	27,755	942

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Impairment loss as at Jan 1	942	1 582
Impairment loss recognised in the period	148	337
Reversal of impairment loss	(171)	(2)
Use of impairment loss	(71)	(975)
Impairment loss as at Dec 31	848	942

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 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Impairment loss as at Jan 1	1,301	726
Impairment loss recognised in the period	-	1,119
Reversal of impairment loss	(379)	(544)
Impairment loss as at Dec 31	922	1,301

As at December 31st 2014, the gross value of loans advanced to individuals was PLN 14,402 thousand (December 31st 2013: PLN 9,580 thousand). The Company recognised an impairment loss on loans advanced of
PLN 922 thousand as at December 31st 2014 (2013: PLN 928 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 2013
PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 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	-
Hedge derivatives	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	-

As at December 31st 2014,
PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Financial liabilities other than derivative instruments							
Secured borrowings	335,924	440,765	8,477	61,933	10,480	82,444	277,431
Unsecured bonds in issue	489,492	571,761	32,341	15,196	203,086	273,842	47,296
Finance lease liabilities	13,233	13,583	2,309	2,351	4,479	4,444	-
Hedge derivatives	2,668	2,668	1,334	1,334	-	-	-
Trade and other payables	60,613	60,613	60,613	-	-	-	-
	901,930	1,089,390	105,074	80,814	218,045	360,730	324,727

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2013 and December 31st 2014, 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 2014, the undrawn revolving credit facility limit available to the Group was PLN 99,300 thousand (2013: PLN 101,747 thousand). The undrawn limit is available until July 31st 2015.

Currency risk

Exposure to currency risk

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

PLN '000	Dec 31 2014				Dec 31 2013			
	EUR	USD	RON	CZK	EUR	USD	RON	CZK
Trade receivables	55	-	-	-	184	1	-	-
Cash	184	-	15,779	1,603	37	1	6,251	1,773
Financial assets at fair value through profit or loss	9,833	-	268,235	36,602	11,639	-	317,807	41,655
Trade and other payables	(103)	-	(29,313)	-	(92)	-	(5,529)	0
Liabilities under borrowings and other debt instruments	(29,040)	-	-	-	(12,412)	-	-	-
Exposure to currency risk	(19,071)	-	254,701	38,205	(644)	2	318,529	43,428

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 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013	Dec 31 2014	Dec 31 2013
EUR 1	4.1893	4.2110	4.2623	4.1472
USD 1	3.1784	3.1653	3.5072	3.0120
RON 1	0.9440	0.9543	0.9510	0.9262
CZK 1	0.1521	0.1620	0.1537	0.1513
HUF 100	1.3528	1.4134	1.3538	1.3969

As at December 31st 2014, appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an increase (decrease) of equity and profit before tax by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN '000	**Other comprehensive income**	**Profit or loss of the current period**
Dec 31 2014		
EUR (10% appreciation of PLN)	-	1,907
RON (10% appreciation of PLN)	-	(25,470)
CZK (10% appreciation of PLN)	-	(5,395)
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)

Interest rate risk

The Group partly hedges its cash flows connected with interest rate changes.

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

PLN '000	**Carrying amount**	
	Dec 31 2014	**Dec 31 2013**
Fixed-rate financial instruments		
Financial assets	545,726	36,741
Financial liabilities	(60,613)	(35,572)
	485,113	1,169
Hedging effect	(124,000)	(124,000)
	361,113	(122,831)
Floating-rate financial instruments		
Financial assets	861,775	-
Financial liabilities	(838,649)	(687,459)
Hedging effect	124,000	124,000
	(714,649)	(563,459)

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 over the loan term by the amounts shown below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

PLN '000	**Profit or loss of the current period**		**Equity excluding profit or loss of the current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2014				
Floating-rate financial instruments	(30,575)	30,516	-	-
Dec 31 2013				
Floating-rate financial instruments	(6,210)	6,210	2,078	(2,159)

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	**Dec 31 2014**		**Dec 31 2013**	
	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	861,775	861,775	1,053,913	1,053,913
Hedge derivatives	2,668	2,668	(634)	(634)
	864,443	864,443	1,053,279	1,053,279
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	504,762	508,753	-	-
Loans and receivables	40,964	40,964	36,741	36,741
Cash and cash equivalents	70,545	70,545	35,258	35,258
Secured bank borrowings	(335,924)	(335,924)	(100,508)	(100,508)
Unsecured bonds in issue	(489,492)	(489,492)	(574,539)	(574,539)
Finance lease liabilities	(13,233)	(13,233)	(12,412)	(12,412)
Trade and other payables	(60,613)	(60,613)	(35,572)	(35,572)
	(282,991)	(279,000)	(651,032)	(651,032)

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

Interest rates used for the assessment of fair value

	Dec 31 2014	Dec 31 2013
Financial assets at fair value through profit or loss	9.48% - 321.14%	6.98% - 339.27%
Borrowings	5.08%-2.25%	5.11%-6.86%
Unsecured bonds in issue	5.41%-7.06%	6.21%-7.71%
Finance lease liabilities	0.68%-3.77%	0.68%-4.0%

Hierarchy of financial instruments measured at fair value

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

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities,
- Level 2: inputs 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).

No transfers were made between levels.

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 2014	
Financial assets at fair value through profit or loss	861,775

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.

PLN '000	Level 2
As at Dec 31 2013	
Hedge derivatives	634
As at Dec 31 2014	
Hedge derivatives	2,668

The fair value of interest rate swap contracts is determined by reference to the future cash flows under the contracts calculated based on the difference between the projected 3M WIBOR and the actual 3M WIBOR as at the transaction date. In calculating the fair value, the Group uses 3M WIBOR projections provided by an external firm.

29. Operating lease

Operating lease agreements with the Company as a lessee

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

PLN '000	**Dec 31 2014**	**Dec 31 2013**
up to 1 year	2,056	2,864
from 1 to 5 years	4,814	2,915
	6,870	5,779

- 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 fora term of ten years, is terminable after the initial period of five years. The annual cost of use is PLN 1,013 thousand.
- Agreement for the use of property with an area of 665 square metres located in Targoviste, Romania, executed with ARTA S.C.M. of Targoviste, Romania, on August 15th 2008. The annual cost of use is EUR 27,930 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 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

30. Related-party transactions

Remuneration of the management personnel

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

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Base pay/ managerial contract	2,202	2,538
Provisions for employee bonuses for the current year	2,632	2,414
Other - medical services and other	91	90
Share based consideration	7,335	2,578
	12,260	7,620

Other transactions with the management personnel

As at December 31st 2014, the members of the management body and persons closely related to them jointly held 13% of the total vote at the Parent's General Meeting (December 31st 2013: 15%).

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 139 thousand in 2014.

31. Composition of the Group

Subsidiaries

PLN '000	Country	Share capital held (%) Dec 31 2014	Dec 31 2013
Secapital S.a.r.l	Luxembourg	84.4%	93.8%
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%
ProsperoCapital Sp.z.o.o.	Poland	100%	-
KRUK International Z.r.t. (in liquidation)	Hungary	100%	100%
Invest Capital Malta Ltd **	Malta	99.5%	99.5%
RoCapital IFN S.A.	Romania	99.0%	-
Kruk Deustschland Gmbh	Germany	100%	-

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

In 2014, the Company increased the share capital of its subsidiary Secapital S.a.r.l. by PLN 394,379 thousand.

On April 11th 2014, ROCAPITAL IFN S.A. of Bucharest, Romania, was registered in Romania. It is an operating company whose principal business activities consist in purchasing and servicing mortgage-backed debt portfolios. KRUK S.A. holds 99% of the company's share capital, with the remaining 1% held by KRUK Romania S.r.l. of Bucharest, Romania, a subsidiary of KRUK S.A.

ProsperoCapital Sp. z o.o. of Wrocław, another subsidiary of KRUK S.A., was registered on July 4th 2014. The company's principal business activity comprises other financial service activities n.e.c., including trade in receivables and debt collection, except insurance and pension funding. KRUK S.A. holds 100% of shares in the company's share capital.

On August 19th 2014, the articles of association of KRUK Deutschland GmbH of Berlin were executed. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Germany and other European countries, as well as debt trading. KRUK S.A. holds 100% of shares in the company's share capital.

On September 15th 2014, the process of liquidation of KRUK International Z.r.t. of Budapest, Hungary, a subsidiary of KRUK S.A., was completed.

32. Auditor's fees

PLN '000	Dec 31 2014	Dec 31 2013
Mandatory audit of full-year financial statements	504	574
Tax advisory services	201	77
	705	651

33. Contingent liabilities

On January 15th 2014, KRUK S.A. and Bank Zachodni WBK S.A. executed Annex No. 1 to the bank guarantee agreement of January 14th 2013, valid in the period from January 25th 2013 to January 24th 2014 and securing the payment of all liabilities towards LEGNICKA BUSINESS HOUSE Sp. z o.o. under an office space lease agreement between KRUK S.A. and LEGNICKA BUSINESS HOUSE Sp. z o.o. Under the annex, the guarantee term was extended until January 24th 2015. The guarantee amount did not change and stands at EUR 168,000.00.

On January 15th 2014, KRUK S.A. and Bank Zachodni WBK S.A. executed Annex No. 1 to the bank guarantee agreement of February 18th 2013, valid in the period from February 25th 2013 to February 24th 2014 and securing the payment of all liabilities towards DEVCO Sp. z o.o. under an office space lease agreement between KRUK S.A. and DEVCO Sp. z o.o. Under the annex, the guarantee term was extended until February 24th 2015. The guarantee amount did not change and stands at EUR 135,420.75.

Pursuant to a revolving credit facility agreement executed between KRUK S.A. and Bank Zachodni WBK of Wrocław, and to a trilateral revolving credit facility agreement executed between KRUK S.A., PROKURA NS FIZ and BZ WBK, on May 7th 2014, in order to secure claims arising from these agreements, KRUK S.A. and BZ WBK S.A. entered into an agreement to establish a registered pledge, financial pledge and a first priority pledge under Luxembourg law. The pledges were established over 60,164 Class E shares in Secapital S.a.r.l. of Luxembourg, the Company's subsidiary, to secure the Bank's claims under the above credit facility agreements with a total amount of PLN 140m and any related claims, up to the maximum security amount of PLN 200m.

34. Events subsequent to the reporting date

On January 16th 2015, the Company was notified that on January 16th 2015 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, registered an increase of PLN 87,086 in the share capital of KRUK S.A., effected through the issue of Series E shares.

Pursuant to Resolution No. 1 of the Extraordinary General Meeting of KRUK S.A., dated March 30th 2011, the share capital was increased as part of the conditional share capital increase through the issue of 87,086 Series E shares with a par value of PLN 1.00 per share. The issue of E Series shares was related to the exercise of rights attached to Series A subscription warrants by eligible persons. Series A warrants were issued as part of the incentive programme for key management members at KRUK S.A. and the Group's companies.

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 6th 2015