The KRUK Group

Consolidated financial statements

for the year ended December 31st 2015

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

The KRUK Group

December 31st 2015

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Consolidated statement of financial position

As at December 31st 2015
PLN '000

		Note	Dec 31 2015	Dec 31 2014
Assets				
	Cash and cash equivalents	*22*	140,742	70,545
	Trade receivables	*21*	8,391	10,949
	Investments	*18*	1,620,579	1,380,179
	Other receivables	*21*	26,719	16,534
	Inventories	*20*	587	524
	Property, plant and equipment	*15*	19,957	20,265
	Other intangible assets	*16*	11,805	11,018
	Goodwill	*17*	1,024	1,024
	Deferred tax asset	*19*	2,841	3,539
	Other assets		3,469	2,070
Total assets			1,836,115	1,516,647
Equity and liabilities				
Liabilities				
	Hedge derivatives	*29*	589	2,668
	Trade and other payables	*28*	83,555	60,613
	Employee benefit obligations	*26*	29,239	27,646
	Current tax liability		3,178	1,724
	Liabilities under borrowings and other debt instruments	*25*	935,011	838,649
	Provisions	*27*	264	264
Total liabilities			1,051,836	931,564
Equity				
	Share capital	*23*	17,398	17,110
	Share premium		64,382	53,249
	Exchange differences on translating foreign operations		(7,674)	(3,859)
	Other capital reserves		68,956	55,624
	Retained earnings		641,182	462,893
Equity attributable to owners of the Parent			784,244	585,017
Non-controlling interests			34	66
Total equity			784,278	585,083
Total equity and liabilities			1,836,115	1,516,647

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

Consolidated statement of profit or loss

For the year ended December 31st 2015
PLN '000

	Note	Jan 1 - Dec 31 2015	Jan 1 - Dec 31 2014
Revenue	*7*	611,234	487,920
Other income	*8*	2,589	1,869
		613,823	489 789
Employee benefits expense	*11*	(169,432)	(137,246)
Depreciation and amortisation expense	*15,16*	(10,540)	(11,358)
Contracted services	*9*	(48,344)	(41,302)
Other expenses	*10*	(134,128)	(91,722)
		(362,444)	(281 628)
EBIT		251,379	208,161
Finance income	*12*	2,792	1,392
Finance costs	*12*	(44,394)	(56,715)
Net finance costs		(41,602)	(55,323)
Profit before tax		209,777	152,838
Income tax	*13*	(5,516)	(1,036)
Net profit for period		204,261	151,802
Net profit attributable to:			
Owners of the Parent		204,227	151 736
Non-controlling interests		34	66
Net profit for period		204,261	151,802
Earnings/(loss) per share			
Basic (PLN)	*24*	11.84	8.95
Diluted (PLN)	*24*	11.48	8.72

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

Consolidated statement of comprehensive income

For the year ended December 31st 2015
PLN '000

	Jan 1 - Dec 31 2015	Jan 1 - Dec 31 2014
Net profit for period	204,261	151,802
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	(3,815)	3,867
Cash flow hedges	-	-
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 period	(3,815)	3,867
Total comprehensive income for period	200,446	155,669
Total comprehensive income attributable to:		
Owners of the Parent	200,412	155,603
Non-controlling interests	34	66
Total comprehensive income for period	200,446	155,669
Comprehensive income/(loss) per share		
Basic (PLN)	11.62	9.18
Diluted (PLN)	11.27	8.94

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

Consolidated statement of 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 2014		16,959	47,381	(634)	(7,726)	48,289	311,157	415,426	129	415,555
Comprehensive income for period										
Net profit for 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 period		-	-	634	3,867	-	151,736	156,237	66	156,303
Contributions from and distributions to owners										
- Payment of dividend					-	-	-	-	(129)	(129)
- Share-based payments		-	-	-	-	7,335	-	7,335	-	7,335
- Issue of shares		151	5,868	-	-	-	-	6,019	-	6,019
Total contributions from and distributions to owners		151	5,868	-	-	7,335	-	13,354	66	13,225
Total equity as at Dec 31 2014		17,110	53,249	-	(3,859)	55,624	462,893	585,017	66	585,083
Equity as at Jan 1 2015		17,110	53,249	-	(3,859)	55,624	462,893	585,017	66	585,083
Comprehensive income for period										
Net profit for period		-	-	-	-	-	204,227	204,227	34	204,261
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	(3,815)	-	-	(3,815)	-	(3,815)
Total other comprehensive income		-	-	-	(3,815)	-	-	(3,815)	-	(3,815)
Total comprehensive income for period		-	-	-	(3,815)	-	204,227	200,412	34	200,446
Contributions from and distributions to owners										

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- Payment of dividend	*23*	-	-	-	-	-	(25,938)	(25,938)	(66)	(26,004)
- Issue of shares	*23*	288	11,133	-	-	-	-	11,421	-	11,421
- Share-based payments		-	-	-	-	13,332	-	13,332	-	13,332
Total contributions from and distributions to owners		288	11,133	-	-	13,332	(25,938)	(1,185)	(66)	(1,251)
Total equity as at Dec 31 2015		17,398	64,382	-	(7,674)	68,956	641,182	784,244	34	784,278

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

Consolidated statement of cash flows

For the year ended December 31st 2015

PLN '000	*Note*	Jan 1 - Dec 31 2015	Jan 1 - Dec 31 2014
Cash flows from operating activities			
Net profit for period		204,261	151,802
Adjustments			
Depreciation of property, plant and equipment	*15*	6,246	7,102
Amortisation of intangible assets	*16*	4,294	4,256
Net finance costs		40,573	48,055
(Gain)/loss on sale of property, plant and equipment		(68)	(146)
Equity-settled share-based payments		13,332	7,335
Income tax		5,516	1,036
Change in other investments	*18*	(8,532)	(3,553)
Change in debt portfolios purchased	*18*	(236,609)	(308,283)
Change in inventories		(63)	5
Change in receivables		(7,627)	(670)
Change in other assets		(1,399)	382
Change in trade and other payables		22,942	27,075
Change in employee benefit obligations		1,593	4,404
Income tax paid		(3,364)	(529)
Net cash from operating activities		41,095	(61,729)
Cash flows from investing activities			
Interest received		342	525
Sale of intangible assets and property, plant and equipment		173	170
Purchase of intangible assets and property, plant and equipment		(8,336)	(8,471)
Net cash from investing activities		(7,821)	(7,776)
Cash flows from financing activities			
Net proceeds from issue of shares		11,421	6,018
Proceeds from issue of debt securities		243,360	45,000
Increase in borrowings		742,115	776,493
Repayment of borrowings		(844,174)	(541,056)
Payments under finance lease agreements		(4,512)	(3,133)
Payment of dividend	*24*	(26,004)	(129)
Redemption of debt securities		(41,000)	(129,904)
Interest paid		(44,284)	(48,497)
Net cash from financing activities		36,923	104,792
Total net cash flows		70,197	35,287
Cash and cash equivalents at beginning of period		70,545	35,258
Cash and cash equivalents at end of period	*22*	140,742	70,545

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

Notes to the consolidated financial statements

1. Parent

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

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

Registration in the National Court Register
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 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 reference agency which stores, manages and provides credit information on consumers and businesses.

These consolidated financial statements for the reporting period ended December 31st 2015 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	Shareholdings (%) Dec 31 2015	De 31 2014
SeCapital S.à r.l. *	Luxembourg	69.5%	84.4%
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. (in liquidation)	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%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	100%	100%
KRUK International Z.r.t. (in liquidation)	Hungary	-	100%
InvestCapital Malta Ltd *	Malta	99.5%	99.5%
RoCapital IFN S.A.	Romania	99.0%	99.0%
Kruk Deustschland Gmbh	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	-
ItaCapital S.r.l	Italy	100%	-
KRUK Espana S.r.l	Spain	100%	-
ProsperoCapital S.à r.l.	Luxembourg	100%	-

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

On June 29th 2015, Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus non-standard securitisation closed-end investment fund) was removed from the court register.

In 2015, the Parent made additional contributions to equity in KRUK Deustchland Gmbh, a subsidiary, totalling PLN 16,043 thousand.

The Articles of Association of KRUK Espana S.L. of Madrid were executed on November 17th 2015. KRUK Espana is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Espana shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Espana's share capital and conferring the right to the same proportion of votes at its General Meeting. KRUK Espana S.L.'s principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading.

The Articles of Association of KRUK Italia S.r.l of Milan were executed on November 13th 2015. KRUK Italia is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Italia shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Italia's share capital and conferring the right to the same proportion of votes at its General Meeting.
The company's principal business activities consist in credit management services, and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries.

The Articles of Association of ItaCapital S.r.l of Milan ("ItaCapital") were executed on November 13th 2015. ItaCapital is a wholly-owned subsidiary of KRUK S.A., which holds 20 ItaCapital shares with a par value of EUR 500 per share and the total value of EUR 10,000, representing 100% of ItaCapital's share capital and conferring the right to the same proportion of votes at its General Meeting.
ItaCapital is a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets.

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"), and other local 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 authorised for issue by the Management Board of the Parent (the "Management Board") on February 26th 2016.

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 authorisation 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 2015. The comparative data have been presented as at December 31st 2014 and for the period from January 1st 2014 to December 31st 2014.

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 Group measures purchased debt portfolios at least four times in a given annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio 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.

The Kruk Group prepares projections for recoveries from debt portfolios independently for individual markets. The projections, among other things, account for: historical debtor behaviour, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.

- 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 18 Investments
- Note 29 Financial instruments
- Note 15 Depreciation and amortisation rates
- Note 19 Deferred tax assets

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 Parent is deemed to exercise control when it:

• exercises power over the investee,
• is exposed or has rights to variable returns from its involvement with the investee,
• has the ability to use its power over the investee to affect the amount of its returns. The Group recognises goodwill 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.

Exchange differences on translation into the functional currency are recognised in profit or loss for the given period.

(ii) Translation of foreign operations

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

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

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

c) Financial instruments

(i) Financial 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.

<u>Purchased debt portfolios</u>

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 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 costs.

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.

Novum loans

As part of the Novum business line, consumer loans of up to PLN 7,500 were granted for periods from 3 to 24 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market.

The NOVUM portfolio loans are classified into four categories depending on the period of delinquency.

- in each valuation month, the NOVUM portfolio is classified into the following four categories:

[0-30 DPD]; [31-60 DPD]; [61<=DPD]; [terminated loans]

where DPD means the number of days after the due date of the instalment;

- the aggregate fair value of all the categories represents the fair value of the entire portfolio:

$$Fair\ value\ of\ portfolio = \sum_{i}^{4} Fair\ value_i$$

where:

- i: category number,

- fair value: NPV of future cash flows from the loan portfolio calculated based on the repayment schedule;

- in each valuation month, loss ratios for each category are calculated (loss ratio in a given category is calculated based on historical data on balances due and repayments made by the borrowers);

- impairment loss in a valuation month represents the aggregate impairment losses in all the categories, calculated according to the existing formula:

$$Impairment\ loss(T) = \sum_{i}^{4} Impairment\ loss(T)_i = \sum_{i}^{4} Fair\ value(T)_i * Loss\ ratio(T)_i$$

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

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the three asset categories specified above. Financial assets available for sale are recognised at fair value plus transaction costs directly attributable to the acquisition or issue of a given asset. 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 from the statement of financial position if the Group loses control of contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

(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.

The Group presents liabilities related to purchased debt portfolios under trade 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 and property, plant and equipment under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date). Production cost also comprises preliminary estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such estimation is required. Purchased software, necessary for the proper operation of related equipment, is capitalised as a part of this equipment.

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

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

Gain or loss on disposal of an item of property, plant and equipment is estimated as 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)	10-40	years
Plant and equipment	3-10	years
Vehicles	4-5	years

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

e) Investment property

(i) Recognition and measurement

As part of collection of purchased debt, the Group forecloses property on the basis of final court rulings and applies it towards debt repayment. Investment property is initially measured at cost, including transaction costs. Following the initial recognition, investment property is disclosed at fair value. Gains or losses relating to changes in the fair value of investment property are recognised in profit or loss of the period. Fair value measurement of such property is performed once every six months by a certified internal appraiser.

Investment property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the selling price is recognised in profit or loss of the period.

f) 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.
The Group recognises development expenses under intangible assets. Costs of research and development work for own needs incurred prior to the application of a new technology are recognised as assets if the following conditions are met:

- the production programme or technology are precisely defined, and development expenses to be incurred in connection with them are reliably estimated;
- the technical feasibility of the programme or technology has been demonstrated and appropriately documented, and based on this the entity resolved to manufacture the products or use the technology;
- development expenses are expected to be covered with income from the application of such programmes or technologies.

(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.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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

Revenue from debt portfolios measured at fair value

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.

m) 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.

n) 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.

o) 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.

p) Earnings per share

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

r) 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 which were not yet effective for the annual periods ended December 31st 2015 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 2015:

- IFRS 9 Financial Instruments (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on November 21st 2013) – effective for annual periods beginning on or after July 1st 2014; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,
- 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; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,

- IFRS 14 Regulatory Deferral Accounts (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS 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,
- 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,
- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on June 30th 2014) – effective for annual periods beginning on or after January 1st 2016,
- 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,
- 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); no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of these amendments; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; the effective date of the amendments has been postponed by the IASB for an indefinite term,
- 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,
- 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; as at the date of authorisation of these financial statements, the amendments were 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.

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

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

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; as at the date of authorisation of these financial statements, the standard was not 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; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS 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,
- 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,
- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on June 30th 2014) – effective for annual periods beginning on or after January 1st 2016,
- 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,
- 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); no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of these amendments; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; the effective date of the amendments has been postponed by the IASB for an indefinite term,

- 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,
- 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; as at the date of authorisation of these financial statements, the amendments were 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.
- IFRS 16 Leases (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of the amendments; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 7 − Disclosure Initiative (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.

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

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

If the effect of time value of money is material, the value of receivables is determined by discounting the projected future cash flows to their present value using a discount rate reflecting the current market estimates of the time value of money. If the discounted cash flow method is applied, an increase in receivables over time is recognised as finance income.

(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 cash flows from an entire portfolio, rather than to cash flows generated by 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. 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 the exercise of 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 Group's largest client generates 0.28% of the Group's total revenue (2014: 0.35%). Receivables from the Group's largest client represented 2.26% of total trade receivables, VAT inclusive, as at December 31st 2015 (December 31st 2014: 7.09%). 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 enforcement 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 bonds.

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 bonds.

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 2015, assets denominated in foreign currencies accounted for 31.33% of total assets, while liabilities denominated in foreign currencies represented 10.55% of total equity and liabilities (December 31st 2014: 21.90% and 6.30% 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 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 2015 to December 31st 2015 this ratio, computed as the ratio of net profit for the reporting period to equity less net profit, was 31.31% (2014: 35.04%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 4.86% (2014: 5.18%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and finance leases to total equity, was 1.78 as at December 31st 2015 (December 31st 2013: 1.43).

In the reporting period from January 1st 2015 to December 31st 2015, 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 the segment's performance, as the management believes the gross profit to be the most appropriate metric for the assessment of the segment's results against other entities operating in the industry.

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

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

- Poland
- Romania
- Other foreign markets

Reporting segments

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revenue	**611,234**	**487,920**
Purchased debt portfolios	563,646	442,374
Collection services	29,812	31,729
Other products	17,776	13,817
Direct and indirect costs	**(253,315)**	**(193,983)**
Purchased debt portfolios	(225,041)	(166,510)
Collection services	(20,610)	(19,368)
Other products	(7,664)	(8,105)
Gross profit	**357,919**	**293,937**
Purchased debt portfolios	338,605	275,864
Collection services	9,202	12,361
Other products	10,112	5,712
Administrative expenses	(94,401)	(72,389)
Depreciation and amortisation expense	(10,540)	(11,358)
Other income	2,589	1,869
Other expenses (unallocated)	(4,188)	(3,898)
Finance income/costs	(41,602)	(55,323)
Profit before tax	209,777	152,838
Income tax	(5,516)	(1,036)
Net profit	204,261	151,802

Geographical segments

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

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revenue	**611,234**	**487,920**
Poland	332,242	284,389
Romania, Czech Republic and Slovakia	258,152	182,663
Other foreign markets	20,841	20,868

Non-current assets

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Poland	26,675	25,739
Romania	5,600	5,616
Other foreign markets	512	952
	32,787	32,307

7. Revenue

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revenue from debt purchase	563,646	442,374
Revenue from credit management	29,812	31,729
Revenue from other services	17,776	13,817
	611,234	487,920

Revenue from debt purchase

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Interest income adjusted for actual recoveries	510,652	453,654
Revaluation of debt portfolios	52,840	7,548
Cost of debts sold (*)	73	(18,828)
Foreclosure of property	81	-
	563,646	442,374

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

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revision of recovery forecast	50,107	(10,214)
Change due to change in discount rate	1,072	17,762
Foreign currency gains	1,661	-
	52,840	7,548

The KRUK Group verifies projections of recoveries under debt portfolios on a quarterly basis, and every quarter it recognises changes in portfolio value. In 2015, the aggregate amount of the portfolio revaluation was PLN 50,107 thousand, and it was recognised as revenue from purchased portfolios.

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Interest income adjusted for actual recoveries	369,295	411,881
Revaluation of debt portfolios	97,410	27,690
Cost of debts sold	-	(6,091)
	466,705	433,480

Revaluation of debt portfolios measured at fair value

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revision of recovery forecast	95,353	9,928
Change due to change in discount rate	1,072	17,762
Foreign currency gains	985	-
	97,410	27,690

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

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 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Interest income adjusted for actual recoveries	141,357	41,773
Revaluation of debt portfolios	(44,570)	(20,142)
Cost of debts sold	73	(12,737)
Foreclosure of property	81	-
	96,941	8,894

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Revision of recovery forecast	(45,246)	(20,142)
Foreign currency gains	676	-
	(44,570)	(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 5.78% of total revenue from fee-based credit management (2014: 5.43%).

8. Other income

PLN '000	***Note***	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Reversal of impairment losses on receivables	*29*	319	71
Return of compensation for damage caused by motor vehicles		614	725
Gain on sale of property, plant and equipment		68	146
Re-billed costs of services and court fees		424	171
Liabilities written off		824	555
Other		340	201
		2,589	1,869

9. Contracted services

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Printing services	(907)	(759)
Packing services	(143)	(153)
Transport services	(28)	(36)
Postal and courier services	(9,178)	(7,922)
Communications services	(3,626)	(3,537)
Collection services	(1,474)	(39)
Banking services	(1,918)	(2,037)
Marketing and management services	(1,008)	(1,490)
Consultancy services	(10,036)	(6,298)
Repair and maintenance services	(361)	(224)
IT services	(2,543)	(1,941)
Space rental and service charges	(10,773)	(10,279)
Other auxiliary services	(3,664)	(3,969)
Recruitment services	(905)	(801)
Other rental	(701)	(651)
Security	(553)	(663)
Repair of vehicles	(526)	(503)
	(48,344)	(41,302)

10. Other expenses

PLN '000	***Note***	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Court fees		(68,756)	(38,618)
Advertising		(7,016)	(9,184)
Raw materials and energy used		(9,527)	(10,208)
Taxes and charges		(38,123)	(24,753)
Impairment losses on receivables	*29*	(705)	(148)
Staff training		(2,654)	(1,923)
Business trips		(2,720)	(1,840)
Entertainment expenses		(823)	(953)
Motor insurance		(1,238)	(1,077)
Losses from damage caused by motor vehicles		(612)	(704)
Property insurance		(336)	(451)
Other		(1,618)	(1,863)
		(134,128)	(91,722)

11. Employee benefits expense

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Salaries and wages	(127,373)	(104,842)
Other social security contributions	(8,289)	(3,838)
Old-age and disability pension contributions (defined contribution plans)	(19,341)	(20,132)
Contribution to the State Fund for the Disabled	(1,097)	(1,099)
Equity-settled cost of stock option plan	(13,332)	(7,335)
	(169,432)	(137,246)

12. Finance income and costs

Recognised as profit or loss for current period

Finance income

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Interest income on bank deposits	342	525
Net foreign exchange gains	2,450	867
	2,792	1,392

Finance costs

	Jan 1 - Dec 31 2015	**Jan 1 - Dec 31 2014**
Interest expense on financial liabilities measured at amortised cost	(43,765)	(49,181)
Settlement of discount	-	(4,866)
Remeasurement of investments	(629)	(2,668)
	(44,394)	(56,715)

Recognised under other comprehensive income

Exchange differences on translating foreign operations

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Exchange differences on translating foreign operations	(3,815)	3,867
Attributable to:		
Owners of the Parent	(3,815)	3,867
Finance cost recognised directly in other comprehensive income	(3,815)	3,867

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
SeCapital S.à r.l.	(3,722)	4,412
KRUK Romania S.r.l	(19)	51
KRUK Česká a Slovenská republika s.r.o.	(2)	(868)
RoCapital IFN S.A.	(134)	272
Kruk Deustschland Gmbh	62	-
	(3,815)	3,867

13. Income tax

Income tax recognised in profit or loss of the period

PLN '000	***Note***	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Income tax (current expense)			
Income tax for period		(4,823)	(2,136)
Income tax (deferred expense)			
Origination/reversal of temporary differences	*19*	(693)	1,100
		(5,516)	(1,036)

Reconciliation of effective tax rate

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Net profit for period	204,261	151,802
Income tax recognised in the income statement	(5,516)	(1,036)
Profit before tax for period (assuming 19% tax rate)	232,165	154,621
Profit before tax for period (assuming 16% tax rate)	438	273
Loss before tax for period (assuming 19% tax rate)	(22,826)	(2,056)
Tax calculated at the tax rate applicable in Poland (19%)	(224,608)	(146,119)
Tax calculated at the tax rate applicable in Romania (16%)	(70)	(44)
Tax calculated at the tax rate applicable in the Czech Republic (19%)	3,201	(60)
Effect of non-deductible expenses	187,243	46,477
Effect of tax-exempt income	28,718	98,710
	(5,516)	(1,036)

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).

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

As at December 31st 2015
PLN '000

	Note	Dec 31 2015	Dec 31 2014
Assets			
Non-current assets			
Property, plant and equipment		19,957	20,265
Other intangible assets		11,805	11,018
Goodwill		1,024	1,024
Deferred tax asset		2,841	3,539
Total non-current assets		35 628	35,846
Current assets			
Inventories		587	524
Investments	*18*	1,620,579	1,380,179
Trade receivables		8,391	10,949
Other receivables		26,719	16,534
Prepayments and accrued income		3,469	2,070
Cash and cash equivalents		140,742	70,545
Total current assets		1,800,487	1,480,801
Total assets		1,836,115	1,516,647
Equity and liabilities			
Equity			
Share capital		17,398	17,110
Share premium		64,382	53,249
Exchange differences on translating foreign operations		(7,674)	(3,859)
Other capital reserves		68,956	55,624
Retained earnings		641,182	462,893
Equity attributable to owners of the Parent		784,244	585,017
Non-controlling interests		34	66
Total equity		784,278	585,083
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments		711,325	718,856
Hedge derivatives		589	2,668
Total non-current liabilities		711,914	721,524
Current liabilities			
Current liabilities under borrowings and other debt instruments		223,686	119,793
Trade and other payables		83,555	60,613
Current tax liability		3,178	1,724
Employee benefit obligations		29,239	27,646
Current provisions		264	264
Total current liabilities		339,922	210,040
Total liabilities		1,051,836	931,564
Total equity and liabilities		1,836,115	1,516,647

15. Property, plant and equipment

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value of property, plant and equipment						
Gross value as at Jan 1 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)	0	(3,472)
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

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value as at Jan 1 2015	938	16,262	22,786	2,421	146	42,553
Purchase	86	2,792	3,005	248	-	6,131
Sale/ liquidation	-	(915)	(1,394)	(16)	-	(2,324)
Reclassification of property, plant and equipment under construction	-	-	-	20	(20)	-
Effect of exchange rate changes	(5)	(23)	(73)	9	-	(92)
Gross value as at Dec 31 2015	1,019	18,117	24,325	2,682	126	46,267

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The KRUK Group

PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 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)	0	(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**	**Property, plant and equipment under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2015	(415)	(10,790)	(9,425)	(1,658)	-	(22,288)
Depreciation	(38)	(2,505)	(3,304)	(399)	-	(6,246)
Decrease resulting from sale/ liquidation	-	912	1,280	15	-	2,207
Effect of exchange rate changes	3	13	20	(18)	-	17
Accumulated depreciation and impairment losses as at Dec 31 2014	(451)	(12,371)	(11,429)	(2,060)	-	(26,310)

PLN '000

	Buildings and structures	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Net value						
As at January 1st 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
As at January 1st 2015	523	5,472	13,361	763	146	20,265
As at December 31st 2015	568	5,746	12,896	622	126	19,957

Property, plant and equipment under leases

Under finance lease agreements, the Group uses cars and trucks whose carrying amount as at December 31st 2015 and December 31st 2014 was PLN 11,533 thousand and PLN 13,362 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 25).

Property, plant and equipment under construction

In 2015, the Group incurred costs related to the purchase of IT and telecommunication equipment which was not placed in service as at December 31st. As at December 31st 2015 and December 31st 2014, the value of property, plant and equipment under construction was PLN 126 thousand and PLN 146 thousand, respectively.

16. Other intangible assets

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Gross value of intangible assets			
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
Gross value as at Jan 1 2015	23,665	369	24,034
Produced internally	4,149	-	4,149
Other increase	1,136	-	1,136
Decrease	(3,513)	-	(3,513)
Effect of exchange rate changes	18	-	18
Gross value as at Dec 31 2015	25,455	369	25,824

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2014	(10,568)	(369)	(10,937)
Amortisation	(4,256)	-	(4,256)
Decrease	2,173	-	2,173
Effect of exchange rate changes	4	-	4
Accumulated amortisation and impairment losses as at Dec 31 2014	(12,647)	(369)	(13,016)
Accumulated amortisation and impairment losses as at Jan 1 2015	(12,647)	(369)	(13,016)
Amortisation	(4,294)	-	(4,294)
Effect of exchange rate changes	(3)	-	(3)
Decrease	3,294	-	3,294
Accumulated amortisation and impairment losses as at Dec 31 2014	(13,649)	(369)	(14,018)

PLN '000	**Computer software, licences, permits**	**Other**	**Total**
Net value			
As at January 1st 2014			
As at December 31st 2014	10,408	-	10,408
	11,018	-	11,018
As at January 1st 2015			
As at December 31st 2015	11,018	-	11,018
	11,805	-	11,805

17. Goodwill

PLN '000	Kancelaria Prawna RAVEN	Rejestr Dłużników ERIF BIG S.A.	Total
Gross value			
Gross value as at Jan 1 2014	299	725	1,024
Gross value as at Dec 31 2014	299	725	1,024
Gross value as at Jan 1 2015	299	725	1,024
Gross value as at Dec 31 2015	299	725	1,024
Net value			
As at January 1st 2014	299	725	1,024
As at December 31st 2014	299	725	1,024
As at January 1st 2015	299	725	1,024
As at December 31st 2015	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).

18. Investments

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Investments		
Financial assets at fair value through profit or loss	724,832	861,775
Financial assets measured at amortised cost	873,300	504,762
Investment property	434	161
Loans advanced	22,013	13,481
	1,620,579	1,380,179

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 were 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 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 2015**	**Dec 31 2014**
Purchased debt portfolios		
Unsecured portfolios	1,242,586	1,043,852
Secured portfolios	355,546	322,685
	1,598,132	1,366,537

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

	Dec 31 2015	**Dec 31 2014**
Discount rate		
- risk-free*	0.0663%-1.99%	0.4325%-2.3%
- risk premium**	7.94% - 321.14%	9.48% - 321.14%
Period for which cash flows have been estimated	Jan 2016 - Dec 2031	Jan 2015 - Dec 2024
Nominal value of expected future cash flows	2,835,508	2,455,032

** Vary by market.*
*** Applicable to 99% of fair value.*

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

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Period		
Less than 6 months	390,928	315,217
From 6 to 12 months	344,869	289,839
From 1 to 2 years	558,887	510,307
From 2 to 5 years	1,246,595	1,095,151
Over 5 years	294,229	244,518
	2,835,508	2,455,032

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 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**
Purchased debt portfolios as at Jan 1 2015	**1,366,537**
Purchase of debt portfolios	489,282
Cash recoveries	(825,659)
Increase/(decrease) in liabilities to debtors due to overpayments	458
Valuation of loyalty scheme	4,318
Revenue from debt purchase (interest and revaluation)	563,646
Fair value translation differences (*)	(450)
Purchased debt portfolios as at Dec 31 2015	**1,598,132**

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

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

19. 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 2015	**Dec 31 2014**	**Dec 31 2015**	**Dec 31 2014**	**Dec 31 2015**	**Dec 31 2014**
Property, plant and equipment	1,297	1,488	(1,686)	(1,557)	(389)	(69)
Intangible assets	-	-	(1,742)	(1,500)	(1,742)	(1,500)
Loans advanced	2,578	1,800	-	-	2,578	1,800
Trade and other receivables	105	93	(1,151)	(127)	(1,046)	(34)
Employee benefit obligations	3,194	2,809	-	-	3,194	2,809
Provisions and liabilities	247	381	-	-	247	381
Other	-	152	-	-	-	152
Deferred tax assets/liabilities	7,421	6,723	(4,579)	(3,184)	2,841	3,539
Deferred tax assets offset against liabilities	(4,579)	(3,184)	4,579	3,184	-	-
Deferred tax assets/liabilities in the statement of financial position	2,841	3,539	-	-	2,841	3,539

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Change in temporary differences in a period

PLN '000

	As at Jan 1 2014	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2014	As at Jan 1 2015	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2015
Property, plant and equipment	28	(97)	(69)	(69)	(320)	(389)
Intangible assets	(1,351)	(149)	(1,500)	(1,500)	(242)	(1,742)
Loans advanced to other entities	634	1,166	1,800	1,800	778	2,578
Trade and other receivables	(380)	346	(34)	(34)	(1,012)	(1,046)
Employee benefit obligations	2,429	380	2,809	2,809	385	3,194
Provisions and liabilities	638	(257)	381	381	(134)	247
Other	441	(289)	152	147	(147)	-
	2,439	1,100	3,539	3,534	(693)	2,841

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 2015**	**Dec 31 2014**
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	1,277
Tax loss for 2015	Dec 31 2020	6,298	-
		9,061	2,763
Applicable tax rate		19%	19%
Potential benefit of tax losses		1,722	525

Deferred tax assets of PLN 1,722 thousand (December 31st 2014: PLN 525 thousand) were not included in the calculation of deferred tax as the probability of their use was 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 2015 and December 31st 2014, 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 2014: PLN 0 thousand).

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2015**	**Dec 31 2014**
Tax loss for 2011	Dec 31 2016	-	-
Tax loss for 2012	Dec 31 2017	203	203
Tax loss for 2013	Dec 31 2018	8,394	8,394
Tax loss for 2014	Dec 31 2019	-	-
Tax loss for 2015	Dec 31 2020	-	-
		8,597	8,597
Applicable tax rate		19%	19%
Potential benefit of tax losses		1,633	1,633

Deferred tax assets of PLN 1,633 thousand (December 31st 2014: PLN 1,633 thousand) were not included in the calculation of deferred tax the probability of their use was 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.

20. Inventories

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Materials	586	533
Prepaid deliveries	1	(9)
	587	524

In the reporting period ended December 31st 2015, the Group did not recognise any write-downs on inventories.

21. Trade and other receivables

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Trade receivables	8,391	10,949
	8,391	10,949

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Taxes receivable (other than income tax)	3,232	4,780
Receivables for court fees and stamp duty	20,404	9,996
Other receivables	3,083	1,758
	26,719	16,534

The item taxes receivable (other than income tax) refers to value-added tax receivable.

For information on the Group's exposure to credit and currency risk as well as impairment losses on receivables, see Note 29.

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Change in receivables resulting from statement of financial position	7,627	670
Current tax asset	-	-
Change in receivables resulting from statement of cash flows	(7,627)	(670)

22. Cash and cash equivalents

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Cash in hand	101	79
Cash in current accounts	140,641	70,466
	140,742	70,545
Restricted cash	-	37

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

23. Equity

Share capital

	Ordinary shares	
	2015	**2014**
'000		
Number of shares as at Jan 1	17,110	16,959
Issue of shares	288	151
Number of fully-paid shares at end of period	17,398	17,110
PLN		
Par value per share	1,00	1,00
PLN '000		
Par value of share capital as at Jan 1	17,110	16,959
Par value as at Dec 31	17,398	17,110

Parent's shareholding structure as at December 31st 2015

Shareholder	**Number of shares**	**Par value of shares (PLN '000)**	**Share capital held (%)**
Piotr Krupa	2,016,927	2,017	11.59%
NN PTE (*)	1,950,000	1,950	11.21%
Aviva OFE	1,446,000	1,446	8.31%
Generali OFE	1,100,000	1,100	6.32%
Other members of the Management Board	220,918	221	1.27%
Other shareholders	10,664,503	10,665	61.30%
	17,398,348	17,398	100%

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

As at December 31st 2015, the registered share capital was divided into 17,398 thousand ordinary shares (December 31st 2014: 17,110 thousand). The par value per share was PLN 1 (December 31st 2014: PLN 1).

In 2015, the Company issued shares under a share-based payment plan.

On April 30th 2015, the Management Board of the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of Resolution No. 234/15 of April 30th 2015, resolved to register 106,575 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 October 15th 2015, the Management Board of the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of Resolution No. 688/15 of October 15th 2015, resolved to register 106,575 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.

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, 2014 and 2015 was PLN 890 thousand, PLN 2,346 thousand, PLN 2,578 thousand, PLN 5,451 thousand and PLN 6,958 thousand, respectively. The amount increased the Parent's other capital reserves.

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

The terms of the Option Plan for 2011-2015 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 Parent 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 Parent or its subsidiary or remains in other legal relationship under which they provide 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 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 Parent 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 Parent 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 2011–2015.

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 of the Parent 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 S.A. Supervisory Board of July 20th 2012, issued on the basis of the 2011–2014 Incentive Scheme for key management personnel of the Parent and the companies of the Group, as approved by virtue of Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A. of March 30th 2011, the Parent 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 S.A. 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 Parent 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 Parent'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 July 3rd 2015, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2014, and determining the list of eligible persons under Tranche 4 for 2014. The Parent's Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 4 for 2014 had been fulfilled, and determined the list of eligible persons in Tranche 4 for the year.

Pursuant to the Resolution, the Parent's Supervisory Board allotted subscription warrants under the 2014 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 262,817 subscription warrants were delivered to the eligible persons on July 7th 2015.

On May 28th 2014, the Annual General Meeting of 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 Parent's Articles of Association. The incentive scheme for 2015-2019 (the "2015-2019 Scheme") is 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 KRUK S.A.'s Series F shares on preferential terms, set forth in the Resolution. The eligible persons comprise members of the Management Board, including the President, as well as KRUK S.A.'s 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.

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional Parent's share capital increase of up to PLN 847,950, 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 KRUK S.A. shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who are not members of the Parent's Management Board 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). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases by no less than 13.00%. Under the Scheme, KRUK S.A. 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.

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

On September 2nd 2014, The Management Board of KRUK S.A. determined the list of persons who are Members of KRUK S.A. Management Board and are eligible to participate in the 2015-2019 Stock Option Scheme (the "Base List of Management Board Members") and the list of persons who are not Members of the Company's Management Board but are eligible to participate in the 2015-2019 Stock Option Scheme (the "Base List of Non-Management Board Members").

The Parent's Management Board Members hold no rights to KRUK shares other than those attached to the subscription warrants.

Exercised warrants

2011–2015 Option Plan	Number of options available under the Plan	Number of priced (offered) options	Number of issued options	Number of exercised options	including in 2015	including in 2014	including in 2013
2011–2015 Option Plan	**845,016**	**876,689**	**702,064**	**505,208**			
base pool	**650,673**	**650,673**	**576,891**	**397,968**			
2011_tranche	162,690	162,690	161,057	142,913	**51,017**	**40,341**	**51,555**
2012_tranche	162,690	162,690	152,738	134,107	**57,641**	**76,466**	
2013_tranche	162,690	162,690	143,231	120,948	**120,948**		
2014_tranche	162,603	162,603	119,865				
reserve pools	**194,343**	**226,016**	**125,173**	**107,240**			
2011_tranche	48,564	28,733	28,733	29,520	**4,140**	**10,980**	**7,200**
2012_tranche	48,564	49,020	49,020	38,880	**15,080**	**23,800**	
2013_tranche	48,564	47,420	47,420	38,840	**38,840**		
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).

24. Earnings per share

Basic earnings per share

As at December 31st 2015, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 204.227 thousand (2014: PLN 151,736 thousand) and the weighted average number of shares in the period covered by the financial statements of 17,243 thousand (2014: 16,957 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000

	Jan 1 - Dec 31 2015	Jan 1 - Dec 31 2014
Net profit attributable to owners of the Parent (basic)	204,227	151,736
Net profit attributable to owners of the Parent (diluted)	204,227	151,736

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Number of ordinary shares as at Jan 1	*23*	17,110	16,959
Effect of cancellation and issue		133	(2)
Weighted average number of ordinary shares in period ended Dec 31		17,243	16,957
PLN			
Earnings per share		11.84	8.95

Dividend per share paid

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Dividend paid from 2014 profit	25,938	-
PLN		
Dividend per share	1.50	-

Diluted earnings per share

As at December 31st 2015, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 204,227 thousand and the weighted average number of shares in the period covered by the financial statements of 17,793 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	***Note***	**Dec 31 2015**	**Dec 31 2014**
Weighted average number of ordinary shares in period ended Dec 31	*23*	17,243	16,957
Effect of issue of unregistered shares not subscribed for		550	450
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		17,793	17,407
PLN			
Earnings per share (diluted)		11.48	8.72

25. Liabilities under borrowings and other debt instruments

This note contains information on the Group's liabilities under borrowings and other debt instruments measured at amortised cost. Information on the Group's exposure to currency, liquidity and interest rate risks is presented in Note 29.

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Non-current liabilities		
Secured borrowings	171,318	239,846
Liabilities under debt securities (unsecured)	534,204	470,633
Finance lease liabilities	5,803	8,377
	711,325	718,856
Current liabilities		
Current portion of secured borrowings	63,503	96,078
Liabilities under debt securities (unsecured)	155,328	18,859
Current portion of finance lease liabilities	4,855	4,856
	223,686	119,793

Terms and repayment schedule of borrowings and other debt instruments

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2015**	**Dec 31 2014**
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin 1.0-3.0 pp; 1M EURIBOR + margin 2.2-2.4 pp	2024	234,821	335,924
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin 2.9-4.6 pp	2020	689,532	489,492
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin 1.64-4 pp	2019	10,658	13,233
				935,011	838,649

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at December 31st 2015			
up to 1 year	4,977	122	4,855
from 1 to 5 years	5,943	140	5,803
	10,920	262	10,658
As at December 31st 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

PLN '000	Dec 31 2015	Dec 31 2014
Registered pledge over purchased portfolios and assignment of claims financed with the facility, registered pledge over shares in SeCapital S.à r.l.	459,266	480,146
Property, plant and equipment under finance leases	10,658	13,362
	469,924	493,508

26. Employee benefit obligations

PLN '000	Dec 31 2015	Dec 31 2014
Salaries and wages payable	9,471	7,874
Liabilities to the Social Security Institution	5,083	4,578
Personal income tax	1,378	1,117
Accrued holidays	4,050	3,581
Accrued salaries and wages (bonuses)	9,086	10,461
Special accounts	171	35
	29,239	27,646

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2014	2,771
Increase	2,947
Use	(2,137)
Value as at Dec 31 2014	3,581
Value as at Jan 1 2015	3,581
Increase	3,946
Use	(3,477)
Value as at Dec 31 2015	4,050
Change in accrued salaries and wages (bonuses)	
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
Value as at Jan 1 2015	10,461
Increase	22,272
Use	(22,776)
Release	(871)
Value as at Dec 31 2015	9,086

27. Provisions

PLN '000	**Other provisions**
Value as at Jan 1 2014	264
Recognition	-
Value as at Dec 31 2014	264
Value as at Jan 1 2015	264
Recognition	-
Value as at Dec 31 2015	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.

28. Trade and other payables

PLN '000	**Dec 31 2015**	**Dec 31 2014**
Trade payables to other entities	55,258	45,773
Deferred income	4,368	1,861
Tax and duties payable	9,662	7,062
Accrued expenses	2,188	765
Other liabilities	12,078	5,152
	83,555	60,613

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

29. 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 2015**	**Dec 31 2014**
Financial instruments at fair value through profit or loss	*18*	724,832	861,775
Financial assets measured at amortised cost	*18*	873,300	504,762
Investment property	*18*	434	161
Loans	*18*	22,013	13,481
Receivables	*21*	35,110	27,483
		1,655,689	1,407,662

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

PLN '000

	Dec 31 2015	**Dec 31 2014**
Poland	1,158,042	1,170,537
Romania	424,313	199,520
Czech Republic	60,977	37,605
Other foreign markets	12,357	-
	1,655,689	1,407,662

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 2015	Impairment loss Dec 31 2015	Gross value Dec 31 2014	Impairment loss Dec 31 2014
Not due	31,159	-	24,800	-
Past due, 0-30 days	1,647	-	928	-
Past due, 31-90 days	1,379	-	679	-
Past due, 91-180 days	336	-	524	-
Past due, 181-365 days	407	178	188	148
Past due, over one year	1,370	1,010	1,212	700
	36,298	1,188	28,331	848

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1 - Dec 31 2015	Jan 1 - Dec 31 2014
Impairment loss as at Jan 1	848	942
Impairment loss recognised in period	705	148
Reversal of impairment loss	(319)	(171)
Use of impairment loss	(46)	(71)
Impairment loss as at Dec 31	1,188	848

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 - Dec 31 2015	Jan 1 - Dec 31 2014
Impairment loss as at Jan 1	922	1,301
Impairment loss recognised in period	1,315	-
Reversal of impairment loss	-	(379)
Impairment loss as at Dec 31	2,237	922

As at December 31st 2015, the gross value of loans advanced to individuals was PLN 24,250 thousand (December 31st 2014: PLN 14,402 thousand). The Group recognised impairment losses on loans of PLN

2,237 thousand as at December 31st 2015 (2014: PLN 922 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 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

As at December 31st 2015
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	234,821	273,849	4,644	3,188	6,323	119,832	139,863
Unsecured bonds in issue	689,532	807,635	102,082	88,552	159,494	250,395	207,111
Finance lease liabilities	10,658	12,459	2,296	2,496	4,380	3,287	-
Hedge derivatives	589	589	589		-	-	-
Trade and other payables	83,555	83,555	83,555	-	-	-	-
	1,019,155	1,178,087	193,166	94,236	170,197	373,514	346,974

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2014 and December 31st 2015, 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 2015, the undrawn revolving credit facility limit available to the Group was PLN 62,620 thousand (2014: PLN 99,300 thousand). The undrawn limit is available until October 30th 2020.

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 foreign subsidiaries, calculated based on the exchange rates effective at the end of the reporting period is presented below:

'000	Dec 31 2015			Dec 31 2014		
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	5	-	-	55	-	-
Cash	39,299	51,440	1,874	184	15,779	1,603
Financial assets	21,519	424,313	36,666	9,833	268,235	36,602
Trade and other payables	(100)	(45,014)	-	(103)	(29,313)	0
Liabilities under borrowings and other debt instruments	(65,904)	-	-	(29,040)	-	-
Exposure to currency risk	(5,181)	430,739	38,540	(19,071)	254,701	38,205

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

PLN	**Average exchange rates**		**End of period (spot rates)**	
	Jan 1 - Dec 31 2015	**Jan 1 - Dec 31 2014**	**Dec 31 2015**	**Dec 31 2014**
EUR 1	4.1848	4.1893	4.2615	4.2623
USD 1	3.7928	3.1784	3.9011	3.5072
RON 1	0.9421	0.9440	0.9421	0.9510
CZK 1	0.1534	0.1521	0.1577	0.1537
HUF 100	1.3529	1.3528	1.3601	1.3538

As at December 31st 2015, 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 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 2015		
EUR (10% appreciation of PLN)	14	518
RON (10% appreciation of PLN)	(757)	(43,074)
CZK (10% appreciation of PLN)	(23)	(3,832)

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 2015	**Dec 31 2014**
Fixed-rate financial instruments		
Financial assets	930,423	545,726
Financial liabilities	(83,555)	(60,613)
	846,868	485,113
Hedging effect	(124,000)	(124,000)
	722,868	**361,113**
Floating-rate financial instruments		
Financial assets	724,832	861,775
Financial liabilities	(935,011)	(838,649)
Hedging effect	124,000	124,000
	(811,011)	**(714,649)**

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 material 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 current period**		**Equity excluding profit or loss of current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2015				
Floating-rate financial instruments		(33,584)	33,584	-
Dec 31 2014				
Floating-rate financial instruments		(30,575)	30,516	-

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 2015**		**Dec 31 2014**	
	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	724,832	724,832	861,775	861,775
Hedge derivatives	(589)	(589)	(2,668)	(2,668)
	724,243	724,243	859,107	859,107
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	873,300	872,342	504,762	508,753
Investment property	434	434	161	161
Loans and receivables	57,123	57,123	40,964	40,964
Secured bank borrowings	(234,821)	(234,821)	(335,924)	(335,924)
Unsecured bonds in issue	(689,532)	(689,532)	(489,492)	(489,492)
Finance lease liabilities	(10,658)	(10,658)	(13,233)	(13,233)
Trade and other payables	(83,555)	(83,555)	(60,613)	(60,613)
	(87,709)	(88,667)	(353,375)	(349,384)

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 2015	Dec 31 2014
Financial assets at fair value and measured at amortised cost	7.94% - 321.14%	9.48% - 321.14%
Borrowings	2.00%-4.65%	2.25%-5.08%
Unsecured bonds in issue	4.50%-6.32%	5.41%-7.06%
Finance lease liabilities	1.39%-3.58%	0.68%-3.77%

Hierarchy of financial instruments measured at fair value

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

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

In 2014-2015, no transfers were made between the above levels.

PLN '000	Level 3
As at Dec 31 2014	
Financial assets at fair value through profit or loss	861,775
As at Dec 31 2015	
Financial assets at fair value through profit or loss	724,832

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 2014	
Hedge derivatives	(2,668)
As at Dec 31 2015	
Hedge derivatives	(589)

On July 19th 2013, KRUK S.A. executed an interest rate swap (IRS) transaction with Bank Zachodni WBK to hedge the 3M WIBOR-linked part of the coupon on Series M1 bonds with a nominal value of PLN 40m.

Key terms of the transaction:

- Notional value: PLN 40m
- Contract start date: June 23rd 2014
- Contract end date: March 21st 2016
- Fixed percentage rate (payer – KRUK S.A.): 3.28%
- Variable percentage rate (payer – BZ WBK): 3M WIBOR
- Interest periods: 3 months

On October 16th 2013, KRUK S.A. executed an interest rate swap (IRS) transaction with Bank Zachodni WBK to hedge the 3M WIBOR-linked part of the coupon on Series M1 bonds with a nominal value of PLN 44m.

Key terms of the transaction:

- Notional value: PLN 44m
- Contract start date: June 23rd 2014
- Contract end date: March 21st 2016
- Fixed percentage rate (payer – KRUK S.A.): 3.50%
- Variable percentage rate (payer – BZ WBK): 3M WIBOR
- Interest periods: 3 months

On October 24th 2013, KRUK S.A. executed an interest rate swap (IRS) transaction with Bank Zachodni WBK to hedge the 3M WIBOR-linked part of the coupon on Series O2 and P1 bonds with a nominal value of PLN 40m.

Key terms of the transaction:

- Notional value: PLN 40m
- Contract start date: June 9th 2014
- Contract end date: June 6th 2016
- Fixed percentage rate (payer – KRUK S.A.): 3.30%
- Variable percentage rate (payer – BZ WBK): 3M WIBOR
- Interest periods: 3 months

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.

30. Operating lease

Operating lease agreements with the Group as a lessee

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

PLN '000	**Dec 31 2015**	**Dec 31 2014**
up to 1 year	4,015	2,056
from 1 to 5 years	5,043	4,814
	9,058	6,870

- Agreement for the use of property with an area of 2,216 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed for a term of ten years, is terminable after the initial period of five years. The annual cost of use is PLN 1,013 thousand.
- Agreement for the use of property with an area of 665 square metres located in Targoviste, Romania, executed with ARTA S.C.M. of Targoviste, Romania, on August 15th 2008. The annual cost of use is EUR 27,930 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 After the initial term, the Agreement is now effective for indefinite time.
- Agreement executed with Palmer Capital Central European Properties as. of Prague on November 4th 2014. The annual cost of use of the 872.55 square metre property is CZK 1,685 thousand.

31. Related-party transactions

Remuneration of the management personnel - the Management Board

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

PLN '000	**Jan 1 - Dec 31 2015**	**Jan 1 - Dec 31 2014**
Base pay/ managerial contract (gross)	4,345	2,202
Provisions for employee bonuses for current year	2,287	2,632
Other - medical services and other	87	91
Share based payments	13,333	7,335
	20,052	12,260

Other transactions with the management personnel

As at December 31st 2015, members of the Management Board and persons closely related to them jointly held 13% of the total voting right at the Parent's General Meeting (December 31st 2014: 13%).

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 in 2015 totalled PLN 133 thousand.

32. Share-based payments

PLN '000

Period ending	**Value of benefits granted**
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,333
Total	28,957

33. Composition of the Group

Subsidiaries

PLN '000	Country	Shareholdings (%) Dec 31 2015	Dec 31 2014
SeCapital S.à r.l. *	Luxembourg	69.5%	84.4%
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. (in liquidation)	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%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	100%	100%
KRUK International Z.r.t. (in liquidation)	Hungary	-	100%
InvestCapital Malta Ltd *	Malta	99.5%	99.5%
RoCapital IFN S.A.	Romania	99.0%	99.0%
Kruk Deustschland Gmbh	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	-
ItaCapital S.r.l	Italy	100%	-
KRUK Espana S.r.l	Spain	100%	-
ProsperoCapital S.à r.l.	Luxembourg	100%	-

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

In 2015, the Parent reduced the share capital of its subsidiary Secapital S.a.r.l. by PLN 66,532 thousand.

In 2015, the Parent made additional contributions to equity in KRUK Deustchland Gmbh, a subsidiary, totalling PLN 16,043 thousand.

The Articles of Association of KRUK Espana S.L. of Madrid were executed on November 17th 2015. KRUK Espana is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Espana shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Espana's share capital and conferring the right to the same proportion of votes at its General Meeting. KRUK Espana S.L.'s principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading.

The Articles of Association of KRUK Italia S.r.l of Milan were executed on November 13th 2015. KRUK Italia is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Italia shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Italia's share capital and conferring the right to the same proportion of votes at its General Meeting.

The company's principal business activities consist in credit management services, and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries.

The Articles of Association of ItaCapital S.r.l of Milan ("ItaCapital") were executed on November 13th 2015. ItaCapital is a wholly-owned subsidiary of KRUK S.A., which holds 20 ItaCapital shares with a par value of EUR 500 per share and the total value of EUR 10,000, representing 100% of ItaCapital's share capital and conferring the right to the same proportion of votes at its General Meeting.

ItaCapital is a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets.

34. Auditor's fees

PLN '000	Dec 31 2015	Dec 31 2014
Mandatory audit of full-year financial statements and review of half-year financial statements	481	504
Consultancy services	9	201
	490	705

35. Contingent liabilities

The bank guarantee agreement executed by KRUK S.A. and Bank Zachodni WBK S.A. on January 14th 2013 expired on March 31st 2015. The agreement, valid period from January 25th 2013 to March 31st 2015, secured 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. The guarantee amount was EUR 168,000.00.

The bank guarantee agreement executed by KRUK S.A. and Bank Zachodni WBK S.A. on February 18th 2013 expired on February 24th 2015. The agreement, valid from February 25th 2013 to February 24th 2015, secured the payment of liabilities towards DEVCO Sp. z o.o. under an office space lease agreement between KRUK S.A. and DEVCO Sp. z o.o. The guarantee amount was 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 S.A., 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.

Following the execution, on October 3rd 2014, of a revolving credit facility agreement between KRUK S.A. and BNP Paribas Bank Polska S.A., on March 11th 2015 KRUK S.A., the bank and SeCapital S.à.r.l executed an agreement to establish a financial pledge under Luxembourg law over shares in SeCapital S.à.r.l. compartment. The pledge secures the Bank's claims under the agreement, i.e. the principal amount of up to PLN 30m plus interest, fees and commissions, and expenses (if any). As at March 31st 2015, a pledge existed over 24,385 Class D shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 26,823,500.

In connection with the credit facility agreement, on July 2nd 2015 KRUK S.A. entered into a surety agreement with mBank S.A. Under the surety agreement, KRUK S.A. issued a surety covering the liabilities of the borrower, Prokura NS FIZ, towards the bank arising under the credit facility agreement, becoming a joint and several debtor in respect of the liabilities. The surety was issued for up to PLN 150,000 thousand. It will expire not later than on July 1st 2023.

36. Events subsequent to the reporting date

On December 23rd 2015, KRUK S.A.'s subsidiary Secapital S.a r.l. entered into an investment agreement with Presco Investments Limited of Malta.

The Parties entered into the agreement in connection with a transaction to sell 100% of shares, free of any encumbrances, unlimited and free of any third-party rights, in Presco Investments S.a r.l., as well as of the right to debt portfolios purchased in Poland and held by the seller and P.R.E.S.C.O. Investment I NS FIZ, comprising two million cases with a total nominal value of PLN 2.7bn.

Pursuant to the agreement, the seller intends to sell, and the buyer intends to purchase, 390,050 shares with a total par value of PLN 39,005,000, for a price of PLN 216.8m. The shares confer the right to debt portfolios purchased in Poland with a total nominal value of PLN 2.7bn. The final price will reflect the agreed adjustments, including reduction by any recoveries on the debt portfolios owned by the seller and the fund. The title to the shares will be transferred from the seller to the buyer upon signing by the parties of a representation on the fulfilment of conditions and transfer of the shares.

The parties agreed that the payment of a portion of the price, totalling approximately PLN 42,000 thousand, will be deferred to secure the performance of the obligations under the agreement in the transitional period, in accordance with the agreement. The deferred amount, including interest calculated on arm's length terms, will be settled in accordance with the agreement.

The agreement sets out the conditions for closing the transaction, including operational and legal ones, which must be met by May 30th 2016, the agreement otherwise becoming null and void.

If the above conditions are met or are partially waived, the parties will make the representation on fulfilment of the conditions, resulting in the transfer of the shares to the buyer, in which the final price of the shares and the payment terms will be set out.

On February 12th 2016, the Management Board of KRUK S.A. was notified that the Management Board of the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of Resolution No. 90/16 of February 11th 2016, resolved to register 117,398 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.

The shares will be registered in CSDP within three days of the receipt by CSDP of documents confirming the adoption by the regulated market operator of a decision to introduce the shares to trading on that regulated market, however not earlier that on the date specified in the decision as the date of introduction of the shares to trading on that market.

On February 25th 2016, the Management Board of KRUK S.A., acting pursuant to Art. 371.1, 371.2 and 371.3 of the Commercial Companies Code of September 15th 2000, in conjunction with Art. 2.1 and Art 33.2 of the Act on Bonds of January 15th 2015, passed Resolution No. 35/2016 on the issue of unsecured Series AA2 bonds.

The Company intends to use the issue proceeds for financing of debt purchases by the KRUK Group, refinancing of the Group's debt, or financing of the Group's growth through acquisitions.

The Company resolved to issue up to 150,000 unsecured Series AA2 bearer bonds with a nominal value of PLN 1,000 per bond, maturing 72 months after the allotment date.

The bonds will be offered at the issue price equal to their nominal value. The bonds will bear interest, with the rate of interest determined by the Company's Management Board based on the bookbuilding process, by way of a separate resolution. Interest on the bonds will be payable every three months. The bonds will be issued in accordance with, and will be governed by, Polish law.

Invitations to acquire bonds will be submitted to no more than 149 entities, pursuant to Art. 33.2 of the Act on Bonds.

Only the entities to whom an invitation to acquire bonds is submitted will be eligible to participate in the offer and acquire the bonds.

The issue of the bonds will be carried out by June 30th 2016.

On February 26th 2016, the Management Board of KRUK S.A. passed a resolution to recommend to the Parent's Annual General Meeting that a dividend of PLN 2 per share be distributed to KRUK S.A. shareholders from the net profit earned in the period January 1st−December 31st 2015.

The recommendation concerning the dividend payment and dividend amount was prepared taking into account the KRUK Group's current financial standing, as well as its further growth strategy, plans and prospects.

The Management Board may propose distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial standing.

If the Annual General Meeting passes a resolution in line with the Management Board's recommendation, the balance of the Company's net profit for 2015 will be allocated to statutory reserve funds.

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, February 26th 2016