KRUK S.A.
Separate financial statements
For the year ended December 31st 2014
Prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union

KRUK S.A.
December 31st 2014

Table of contents

	Page
Separate financial statements	
Separate statement of financial position	3
Separate statement of profit or loss	4
Separate statement of comprehensive income	5
Separate statement of changes in equity	6
Separate statement of cash flows	7
Notes to the separate financial statements	8

Separate statement of financial position

As at December 31st 2014,
PLN '000

		Note	Dec 31 2014	Dec 31 2013
Assets				
	Cash and cash equivalents	21	24,515	5,634
	Trade receivables from related entities	20	9,889	23,879
	Trade receivables from other entities	20	4,120	3,224
	Investments in debt portfolios and loans	17	119,237	57,664
	Other receivables	20	161,108	65,432
	Inventories	19	282	272
	Property, plant and equipment	14	12,125	13,330
	Intangible assets	15	9,639	8,554
	Deferred tax asset	18	3,449	2,280
	Investments in subsidiaries	16	941,496	660,520
	Other assets		1,666	1,917
Total assets			1,287,526	842,706
Equity and liabilities				
Liabilities				
	Hedge derivatives	28	2,668	634
	Trade and other payables	27	14,414	28,338
	Employee benefit obligations	25	18,716	16,161
	Current tax liability		1,724	68
	Liabilities under borrowings and other debt instruments	24	785,126	657,997
Total liabilities			822 648	703,198
Equity				
	Share capital	22	17,110	16,959
	Share premium		53,249	47,381
	Cash flow hedging reserve		-	(634)
	Other capital reserves		55,624	48,289
	Retained earnings		338,895	27,513
Total equity			464,878	139,508
Total equity and liabilities			1,287,526	842,706

Separate statement of profit or loss

For the year ended December 31st 2014
PLN '000

	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Revenue	*7*	98,838	102,837
Other income	*8*	1,031	2,664
Merchandise and materials sold		-	(133)
Employee benefits expense	*10*	(80,997)	(69,232)
Depreciation and amortisation expense	*14,15*	(7,606)	(7,263)
Services		(30,112)	(31,306)
Other expenses	*9*	(29,472)	(27,193)
		(148,187)	(135,127)
Operating loss		(48,318)	(29,626)
Finance income	*11*	456,657	138,539
Finance costs	*11*	(96,402)	(91,152)
Net finance income		360,255	47,387
Profit before tax		311,937	17,761
Income tax	*12*	(555)	(10)
Net profit for the period		311,382	17,751
Earnings per share			
Basic (PLN)	*23*	18.36	1.05
Diluted (PLN)	*23*	17.89	1.03

Separate statement of comprehensive income

For the year ended December 31st 2014
PLN '000

	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Net profit for the period		**311,382**	**17,751**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		-	(634)
Income tax on other comprehensive income		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Income tax on other comprehensive income		-	-
Other comprehensive income, net, for the period		-	(634)
Total comprehensive income for the period		311,382	17,117
Comprehensive income/(loss) per share			
Basic (PLN)	*23*	18.36	1.01
Diluted (PLN)	*23*	17.89	0.99

Separate statement of changes in equity

For the year ended December 31st 2014
PLN '000

	Note	Share capital	Share premium	Cash flow hedging reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2013		16,900	45,107	-	45,711	9,762	117,480
Comprehensive income for the period							
Net profit for the period		-	-	-	-	17,751	17,751
Other comprehensive income		-	-	-	-	-	-
- Valuation of hedging instruments		-	-	(634)	0	0	(634)
Total other comprehensive income		-	-	(634)	0	0	(634)
Total comprehensive income for the period		-	-	(634)	-	17,751	17,117
Contributions from and distributions to owners							
- Share-based payments		-	-	-	2,578	-	2,578
- Issue of shares		59	2,274	-	-	-	2,333
Total contributions from and distributions to owners		59	2,274	-	2,578	-	4,911
Total equity as at Dec 31 2013		16,959	47,381	(634)	48,289	27,513	139,508
Equity as at Jan 1 2014		16,959	47,381	(634)	48,289	27,513	139,508
Comprehensive income for the period							
Net profit for the period		-	-	-	-	311,382	311,382
Other comprehensive income							
- Valuation of hedging instruments		-	-	634	-	-	634
Total other comprehensive income				634			634
Total comprehensive income for the period		-	-	634	-	311,382	312,016
Contributions from and distributions to owners							
- Share-based payments	*22*	-	-	-	7,335	-	7,335
- Issue of shares	*22*	151	5,868	-	-	-	6,019
Total contributions from and distributions to owners		151	5,868	-	7,335	-	13,354
Total equity as at Dec 31 2014		17,110	53,249	-	55,624	338,895	464,878

Separate statement of cash flows

For the year ended December 31st 2014
PLN '000

	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Cash flows from operating activities			
Net profit for the period		311,382	17,751
Adjustments			
Depreciation of property, plant and equipment	*14*	4,371	4,549
Amortisation of intangible assets	*15*	3,235	2,714
Net finance income		(358,651)	(48,172)
Gain on sale of property, plant and equipment		(57)	(29)
Equity-settled share-based payments		7,335	2,578
Income tax		555	10
Change in other investments		(4,830)	(8,651)
Change in debt portfolios purchased	*17*	4,910	(6,900)
Change in inventories		(10)	382
Change in receivables		6,393	3,453
Change in prepayments and accrued income		250	(23)
Change in trade and other payables		(2,101)	6,789
Change in employee benefit obligations		2,554	3,045
Income tax paid		(148)	(1,025)
Net cash from operating activities		(24,812)	(23,529)
Cash flows from investing activities			
Interest received		157	253
Loans advanced		(40,068)	(25,949)
Sale of intangible assets and property, plant and equipment		81	548
Dividend received		415,834	119,666
Disposal of financial assets		86,645	47,050
Purchase of intangible assets and property, plant and equipment		(5,879)	(5,661)
Acquisition of financial assets		(497,567)	(132,481)
Repayment of loans advanced		-	2,090
Net cash from investing activities		(40,797)	5,516
Cash flows from financing activities:			
Net proceeds from issue of shares		6,018	2,333
Proceeds from issue of debt securities		45,000	250,000
Increase in borrowings		753,906	321,943
Repayment of borrowings		(541,056)	(408,762)
Redemption of debt securities		(129,904)	(101,500)
Payments under finance lease agreements		(2,612)	(2,223)
Interest paid		(46,862)	(48,700)
Net cash from financing activities		84,490	13,091
Total net cash flows		18,881	(4,922)
Cash and cash equivalents at beginning of period		5,634	10,556
Cash and cash equivalents at end of period	*21*	24,515	5,634

Table of contents

1. Company details ... 9
2. Preparation of separate financial statements ... 10
3. Significant accounting policies ... 11
4. Fair value measurement ... 23
5. Financial risk management ... 24
6. Reporting and geographical segments ... 28
7. Revenue ... 31
8. Other income ... 33
9. Other expenses ... 33
10. Employee benefits expense ... 33
11. Finance income and expenses ... 34
12. Income tax ... 35
13. Current and non-current assets ... 36
14. Property, plant and equipment ... 37
15. Intangible assets ... 39
16. Investments in subsidiaries ... 40
17. Investments ... 41
18. Deferred tax ... 44
19. Inventories ... 46
20. Trade and other receivables ... 46
21. Cash and cash equivalents ... 47
22. Equity ... 47
23. Earnings per share ... 52
24. Liabilities under borrowings and other debt instruments ... 53
25. Employee benefit obligations ... 54
26. Current provisions ... 55
27. Trade and other payables ... 56
28. Financial instruments ... 57
29. Operating lease ... 64
30. Related-party transactions ... 64
31. Auditor's fees ... 67
32. Contingent liabilities ... 67
33. Events subsequent to the reporting date ... 68

1.Company details

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

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

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

Business profile
The Company's core business consists in debt collection, including fee-based debt collection for clients (credit management services) and collection of debt purchased for its own account (purchase of debt portfolios).

The Company is the parent of the KRUK Group ("the Group") and in addition to these separate financial statements it prepares consolidated financial statements containing the data of the Company and its subsidiaries, approved on the same day as these separate financial statements.

As at December 31st 2014 and as at the date of approval of these financial statements, the composition of the Company's Management Board was as follows:

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.

As at December 31st 2014 and as at the date of approval of these financial statements, the composition of the Company's Supervisory Board was as follows:

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

2.Preparation of separate financial statements

a) Statement of compliance

These separate financial statements were approved for issue by the Company's Management Board (the "Management Board") on March 6th 2015.

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union (the "EU-IFRS"). The Company 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").

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

b) Basis of preparation

These financial statements have been prepared for the reporting period from January 1st to December 31st 2014. The comparative data have been presented as at December 31st 2013 and for the period from January 1st 2013 to December 31st 2014.
These financial statements have been prepared based on the historical cost approach, 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 financial statements are presented in the Polish złoty (PLN), rounded to the nearest thousand. The Polish złoty is the functional currency of the Company.

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 an estimate is changed.

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

- Note 3c)(i) Financial assets

The Company measures purchased debt portfolios at least four times in a given annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio as at the measurement date is determined on the basis of reliably estimated value, calculated using an estimation model relying on expected discounted cash flows.

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

- Note 3c)(iii) Derivative instruments and hedge accounting

The Company 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 Company uses 3M WIBOR projections provided by an external firm.

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

- Note 17 Investments
- Note 28 Financial instruments

3.Significant accounting policies

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

a) Foreign currencies

(i) Foreign currency transactions

Transactions denominated in foreign currencies are recognised as at the transaction date in the functional currency, at buy or sell rates quoted as at the transaction date by the bank whose services the Company 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 National Bank of Poland 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 National Bank of Poland 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 National Bank of Poland 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 National Bank of Poland for the date of fair value measurement.

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

b) Financial instruments

(i) Financial assets

Financial assets are classified into the following categories:

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

- Financial assets available for sale.

Financial assets held to maturity

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Purchased debt portfolios

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Company under claim assignment agreements. Prices paid by the Company for such debt portfolios are significantly lower than their nominal value. The Company 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 Company 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 Company verifies the adopted discount rates to ensure that they reflect the then current risk-free rate and risk premium relating to credit risk of a given portfolio.

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

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

Loans and receivables

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

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

<u>Purchased debt portfolios</u>

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

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

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

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

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

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

<u>Cash</u>

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

Financial assets available for sale

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

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

Financial assets are derecognised if the Company 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 the transaction in which the Company becomes a party to an agreement obliging it deliver a financial instrument.

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

(iii) Derivative instruments and hedge accounting

The Company 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.

c) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

Gain or loss on disposal of an item of property, plant and equipment is estimated as a difference between the disposal proceeds, and is recognised in current period's profit or loss under other income and expenses.

(ii) Subsequent expenditure

The Company capitalises future expenditure on replacement of an item of property, plant and equipment if such expenditure may be reliably estimated and if the Company 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 estimated useful economic lives of items of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Assets used under lease or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Company is certain that it will obtain ownership before the end of the lease. Land is not depreciated.

The Company has adopted the following 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.

d) Intangible assets

(i) Recognition and measurement

Acquired intangible assets with finite useful economic lives are recognised at acquisition cost less amortisation charges and impairment losses.

(ii) 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.

(iii) 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 given intangible asset, other than goodwill, from the moment it is placed in service. This method reflects the manner of achieving future economic benefits related to the use of a given asset in the best possible way.

The Company has adopted the following 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.

e) Property, plant and equipment used under lease agreements

Lease agreements under which the Company 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 leases and not recognised in the statement of financial position.

f) 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.

g) 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 Company for economic or legal reasons resulting from the debtor's poor financial condition, which the Company 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 Company tests for impairment each individual asset of receivables or financial instruments held to maturity.

In impairment testing, the Company uses historical trends to assess the probability of default, payment dates and losses, adjusted by the Management Board's estimates indicating whether current economic and credit conditions signal any future significant differences between actual losses and losses projected 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. Losses are recognised in profit or loss for the period and reduce the present value of financial assets. The Company 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 Company 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.

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.

h) Employee benefits

(i) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company 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 Company recognises a liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay such amounts 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 Company 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 Company'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 Company 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.

i) Liabilities

Provisions are recognised when the Company 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.

j) Shares in subsidiaries

Shares in subsidiaries not classified as held for sale are recognised at acquisition cost less any impairment losses.

k) Revenue

(i) Revenue from debt collection services

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

Revenue from fee-based credit management services

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

Revenue from debt purchase

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

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

Revaluation of purchased debt portfolios is defined as a change in their fair value caused by interest rate fluctuations and/or change of estimates concerning future cash flows.

Revenue from debt portfolios measured at amortised cost

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

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

(ii) Sales of merchandise and materials

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

(iii) Sales of other services

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

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

l) Lease payments

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

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

m) Finance income and costs

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

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

n) Income tax

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

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

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

o) Earnings per share

The Company 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 treasury shares held by the Company. 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.

p) Segment reporting

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

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

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

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2014 and, consequently, they have not been applied in preparing these separate 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 Company intends to apply them to the periods for which they are effective for the first time.

Amendments to current standards and interpretations

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

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

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

These changes had no impact on the Company's financial position or performance.

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

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

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

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

These changes had no impact on the Company's financial position or performance.

- *IFRS 12 Disclosure of Interests in Other Entities*

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

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

These changes had no impact on the Company's financial position or performance.

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

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

These changes had no impact on the Company's financial position or performance.

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

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

These changes had no impact on the Company's financial position or performance.

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

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

These changes had no impact on the Company's financial position or performance.

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

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

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

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

- IFRS 9 Financial Instruments (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018; until the date of approval of these financial statements, the standard has not been adopted by the EU; as at the date of approval of these financial statements, the process of adoption of the standard for application within the EU was discontinued,
- IFRIC 21 Levies (published on May 20th 2013) – effective for annual periods beginning on or after January 1st 2014; within the EU, effective at the latest for annual periods beginning on or after September 17th 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on November 21st 2013) – effective for annual periods beginning on or after July 1st 2014; not adopted by the EU by the date of approval of these financial statements,
- Amendments to IFRS introduced as part of the 2010-2012 improvements cycle (published on December 12th 2013) – some of the amendments are effective for annual periods beginning on or after July 1st 2014, while some are effective prospectively for transactions entered into on or after July 1st 2014; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to the IFRS introduced as part of the 2011-2013 improvements cycle (published on December 12th 2013) – effective for annual periods beginning on or after July 1st 2014; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- IFRS 14 Regulatory Deferral Accounts (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of this standard; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (published on May 6th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (published on May 12th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014) – effective for annual periods beginning on or after January 1st 2017; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on September 30th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 27 Equity Method in Separate Financial Statements (published on August 12th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (published on September 11th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 1 − Disclosure Initiative (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

4. Fair value measurement

(i) Trade and other receivables

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

(ii) 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 Company takes into account the expected time when the cash flows resulting from the use of individual collection tools arise. The expected period in which proceeds from collection of debts in a given portfolio will be obtained is based on relevant historical data.

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

(iii) 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.

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

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

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

For the purpose of valuation of the plan, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is purchase the shares corresponding to such options on the first day following the vesting period. The average time to exercise acquired subscription warrants is 1.4 years.

5. Financial risk management

Introduction

The Company 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 Company's exposure to each type of the above risks, the Company's objectives, policies and procedures for measuring and managing the risks, and the Company's management of capital. Note 28 to these 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

Credit risk

Credit risk is the risk of financial loss to the Company 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 Company 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 Company regularly monitors whether payments are made when due, and if any delays are identified, the following actions are taken:
- notices are sent to clients
- e-mails are sent to clients
- telephone calls are made to clients.

Over 80% of clients have conducted business with the Company for at least three years. Only in few cases losses were incurred by the Company as a result of non-payment. Trade and other receivables mainly represent fees receivable in respect of debt collected for clients.

The Company's exposure to credit risk results mainly from individual characteristics of each client. The Company's largest client (excluding the subsidiaries) accounts for 1.74% of the Company's revenue (2013: 8.00%), and the respective percentages for the Company's related entities are 30.86% and 22.48%. Receivables from the Company's largest client among its non-related entities accounted for 0.44% of total gross trade receivables as at December 31st 2014 (December 31st 2013: 0.58%), and in the case of related entities the percentages were 4.3% and 21.27%, respectively. For this reason there is no significant risk concentration with respect to non-related entities.

The Company recognises impairment losses which represent its estimates of losses incurred 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 Company 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 Company has the experience and advanced analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Company evaluates the 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 Company estimates the credit risk based on past inflows from a given portfolio as well as other portfolios with 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 received invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).
- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form

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

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

The Company 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 Company in most of such auctions do not differ significantly from prices offered by the Company’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 are derived from a database containing information on portfolios previously purchased and collected by the Company.

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 Company diversifies the risk by purchasing various types of debt, with varying degrees of collection difficulty and delinquency periods.

The key tool used by the Company 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 Company 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 these financial statements, the Company holds no single debt whose non-payment could have a material adverse effect on the Company'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.

Guarantees

As a rule, the Company issues financial guarantees only to its wholly-owned subsidiaries. During the reporting period, the Company did not issue any guarantees to third parties.

Liquidity risk

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

The Company mitigates the liquidity risk through a continuous debt collection process, which ensures an uninterrupted inflow of cash. It also monitors and takes actions to ensure proper performance of its credit facility agreements. Debt portfolio purchases involve making large one-off payments. To secure the necessary funding, the Company relies on external financing in the form of bank borrowings or notes.
The Company's liquidity risk management policy is designed to ensure that the Company's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Company to a risk of loss or damage to its reputation.

Liquidity risk management tools used at the Company include:

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

Market risk

Market risk is related to changes in such market factors as exchange rates, interest rates or stock prices, which affect the Company's performance or the value of financial instruments it holds. The objective of the market risk management policy implemented at the Company is to control and maintain the Company's exposure to market risk within the assumed values of parameters, while simultaneously optimising the rate of return.

In the Management Board's opinion, for the Company the market risk relates primarily to exposure to the risk of changes in the PLN/RON and PLN/CZK exchange rates, given the Company's considerable investments in debt portfolios denominated in RON and CZK. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. As at December 31st 2014, assets denominated in foreign currencies accounted for 4.05% of total assets, while liabilities denominated in foreign currencies represented 1.89% of total liabilities (December 31st 2013: 5.7% and 1.73% respectively).

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

The Company does not use financial instruments to hedge the exchange rate risks, as cash recoveries in foreign currencies are reinvested to purchase debt portfolios in the same currency.

Capital management

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

The Management Board seeks to strike a balance at the Group level between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base. The Company aims to achieve a high return on equity (ratio of the Group's operating result to the Group's equity); in the reporting period from January 1st 2014 to December 31st 2014 the ratio for the Group was 35.04% (2013: 30.8%). The return on equity is calculated for the entire Group as the Company finances purchases for all subsidiaries. To compare, the weighted average rate of interest expense on interest-bearing debt (excluding liabilities with an assumed interest rate) was 5.18% (2013: 6.91%).

The Company's debt ratio, i.e. the ratio of total liabilities under borrowings, other debt instruments and finance lease liabilities to total equity, was 1.69 as at December 31st 2014 (December 31st 2013: 4.7).

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

6. Reporting and geographical segments

Reporting segments

Below, the Company presents its principal reporting segments. The President of the Management Board reviews internal management reports relating to each business segment at least quarterly. The Company'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.

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

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

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

- Poland
- Romania
- Other foreign markets

Reporting segments

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue	**98,837**	**102,837**
Purchased debt portfolios	43,514	49,805
Credit management	46,359	48,650
Other	8,964	4,382
Direct and indirect costs	**(86,373)**	**(78,542)**
Purchased debt portfolios	(11,571)	(9,812)
Credit management	(72,096)	(65,731)
Other	(2,706)	(2,999)
Gross profit	**12,464**	**24,295**
Purchased debt portfolios	31,943	39,993
Credit management	(25,737)	(17,081)
Other	6,258	1,383
Administrative expenses	(50,184)	(42,596)
Depreciation and amortisation expense	(7,606)	(7,263)
Other income	1,031	2,664
Other expenses (unallocated)	(4,023)	(6,726)
Finance income/costs	360,255	47,387
Profit before tax	311,937	17,761
Income tax	(555)	(10)
Net profit	311,382	17,751

Geographical segments

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

Revenue by geographical segments:

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue	**98,837**	**102,837**
Poland	65,602	65,774
Romania	30,980	34,611
Other foreign markets	2,254	2,452

Non-current assets

A major part of the Group's non-current assets are located in Poland.

7. Revenue

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revenue from debt purchase	43,514	49,805
Revenue from credit management	46,359	48,650
Revenue from other services	8,965	4,025
Revenue from sale of merchandise and materials	-	357
	98,838	102,837

<u>Revenue from debt purchase</u>

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	33,378	30,625
Revaluation of debt portfolios	10,136	19,180
	43,514	49,805

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	9,581	18,898
Change due to change in discount rate	555	282
	10,136	19,180

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	31,635	30,625
Revaluation of debt portfolios	10,128	19,180
	41,763	49,805

Revaluation of debt portfolios measured at fair value

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	9,573	18,898
Change due to change in discount rate	555	282
	10,128	19,180

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

Revenue forecast update is primarily based on the analysis of:
- debtors' behaviour patterns and effectiveness of the collection tools applied;
- changes in currency exchange rates against PLN (for debt portfolios purchased abroad).

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

Revenue from debt portfolios measured at amortised cost

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Interest income adjusted for actual recoveries	1,743	-
Revaluation of debt portfolios	8	-
	1,751	-

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Revision of recovery forecast	8	-
Change due to change in discount rate	-	-
	8	-

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

<u>Revenue from credit management</u>

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main client among non-related entities accounts for 3.71% of revenue from credit management services, and among related entities – for 65.79% (2013: 16.92% and 22.48%, respectively).

8. Other income

PLN '000	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Unidentified time-barred payments written off		-	-
Reversal of impairment losses on receivables	28	71	134
Return of compensation for damage caused by motor vehicles		725	654
Gain on sale of property, plant and equipment		56	29
Liabilities written off		-	1,794
Other		179	53
		1,031	2,664

9. Other expenses

PLN '000	Note	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Court fees		(974)	(590)
Advertising		(6,026)	(4,341)
Raw materials and energy used		(5,944)	(4,842)
Taxes and charges		(7,531)	(7,441)
Re-billed costs of services		(22)	(26)
Impairment losses on receivables	28	(1,631)	(1,951)
Staff training		(1,646)	(983)
Business trips		(1,132)	(1,407)
Entertainment expenses		(245)	(718)
Motor insurance		(575)	(646)
Losses from damage caused by motor vehicles		(704)	(665)
Property insurance		(373)	(205)
Grants		-	(114)
Non-competition		(430)	
Accumulated amortisation of receivables		(1,632)	(1,994)
Other		(607)	(1,270)
		(29,472)	(27,193)

10. Employee benefits expense

	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Salaries and wages	(60,901)	(55,596)
Other social security contributions	(2,997)	(2,591)
Old-age and disability pension contributions (defined contribution plans)	(8 968)	(7,650)
Equity-settled cost of stock option plan	(7,335)	(2,578)
Contribution to the State Fund for the Disabled	(796)	(817)
	(80,997)	(69,232)

11. Finance income and expenses

Recognised as profit or loss of current period

Finance income

PLN '000	*Note*	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Dividend income		426,554	120,387
Interest income on loans advanced and receivables		5,640	1,893
Interest income on bank deposits		158	170
Net gain/(loss) on disposal of shares	*16*	22,995	16,089
Net foreign exchange gains/(losses)		1,310	-
		456,657	138,539

Finance costs

Interest expense on financial liabilities measured at amortised cost	(47,294)	(47,831)
Remeasurement of investments	(49,108)	(39,555)
Net foreign exchange gains/(losses)	-	(3,766)
	(96,402)	(91,152)
Net finance income recognised in profit or loss	360,255	47,387

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

PLN '000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Total interest income on financial assets	5,798	2,063
Total interest expense on financial liabilities	(47,294)	(47,831)

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	*Note*	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Income tax (current expense)			
Income tax for the period		(1,724)	(1,093)
Income tax (deferred expense)			
Origination/reversal of temporary differences	*18*	1,169	1,083
		(555)	(10)

Reconciliation of effective tax rate

PLN '000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Net profit for the period	311,382	17,751
Income tax recognised in the income statement	(555)	(10)
Pre-tax profit for the period (assuming 19% tax rate)	311,937	17,761
Tax calculated at the tax rate applicable in Poland (19%)	(59,268)	(3,375)
Effect of non-deductible expenses	(21,720)	(19,519)
Effect of tax-exempt income	80,433	22,884
Change in temporary differences not recognised in deferred tax expense	-	-
	(555)	(10)

13. Current and non-current assets

As at December 31st 2014,
PLN '000

	Dec 31 2014	Dec 31 2013
Assets		
Non-current assets		
Property, plant and equipment	12,125	13,330
Intangible assets	9,639	8,554
Investments in subsidiaries	941,496	660,520
Deferred tax asset	3,449	2,280
Investments in debt portfolios and loans	25,600	20,428
Total non-current assets	992,309	705,112
Current assets		
Inventories	282	272
Investments in debt portfolios and loans	93,637	37,236
Trade receivables from related entities	9,889	23,879
Trade receivables from other entities	4,120	3,224
Current tax asset	-	-
Other receivables	161,108	65,432
Other assets	1,666	1,917
Cash and cash equivalents	24,515	5,634
Total current assets	295,217	137,594
Total assets	1,287,526	842,706
Equity and liabilities		
Equity		
Share capital	17,110	16,959
Share premium	53,249	47,381
Cash flow hedging reserve	-	(634)
Other capital reserves	55,624	48,289
Retained earnings	338,895	27,513
Total equity	464 878	139,508
Non-current liabilities		
Non-current liabilities under borrowings and other debt instruments	734,296	501,667
Hedge derivatives	2,668	634
Total non-current liabilities	736,964	502,301
Current liabilities		
Current liabilities under borrowings and other debt instruments	50,830	156 330
Trade and other payables	14,414	28,338
Current tax liability	1,724	68
Employee benefit obligations	18,716	16,161
Total current liabilities	85,684	200,897
Total liabilities	822,648	703,198
Total equity and liabilities	1,287,526	842,706

KRUK S.A. 37

14. Property, plant and equipment

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value of property, plant and equipment						
Gross value as at Jan 1 2013	1,515	10,796	11,931	636	2	24,880
Purchase	17	738	3,678	24	28	4,485
Sale/ liquidation	-	(261)	(1,224)	(2)	(2)	(1,489)
Transfer from tangible assets under construction	-	-	-	-	-	-
Gross value as at Dec 31 2013	1,532	11,273	14,385	658	28	27,876

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2014	1,532	11,273	14,385	658	28	27,876
Purchase	-	1,351	1,770	67	118	3,306
Sale/ liquidation	(1,020)	(711)	(1,240)	(140)	-	(3,111)
Transfer from tangible assets under construction	-	-	-	-	-	-
Gross value as at Dec 31 2014	512	11,913	14,915	585	146	28,071

PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2013	(588)	(5,644)	(4,350)	(399)	-	(10,981)
Amortisation expense	(401)	(1,752)	(2,335)	(61)	-	(4,549)
Decrease resulting from sale/ liquidation	-	166	816	2	-	984
Accumulated depreciation and impairment losses as at Dec 31 2013	(989)	(7,230)	(5,869)	(458)	-	(14,546)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2014	(989)	(7,230)	(5,869)	(458)	-	(14,546)
Depreciation and amortisation expense	(24)	(1,528)	(2,769)	(50)	-	(4,371)
Decrease resulting from sale/ liquidation	947	708	1,201	115	-	2,971
Accumulated depreciation and impairment losses as at Dec 31 2014	(66)	(8,050)	(7,437)	(393)	-	(15,946)

PLN '000

	Buildings and structures	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Net value						
As at Jan 1 2013	927	5,152	7,581	237	2	13,899
As at Dec 31 2013	543	4,043	8,516	200	28	13,330
As at Jan 1 2014	543	4,043	8,516	200	28	13,330
As at December 31st 2014,	446	3,863	7,478	192	146	12,125

1

Property, plant and equipment under leases

Under finance lease agreements, the Company uses passenger cars and trucks whose carrying amount as at December 31st 2014 and December 31st 2013 was PLN 7,465 thousand and PLN 7,240 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 23).

Tangible assets under construction

In 2014, the Company incurred costs related to the purchase of equipment not placed in service as at December 31st 2014. As at December 31st 2014 and December 31st 2013, the value of tangible assets under construction was PLN 146 thousand and PLN 28 thousand, respectively.

15. Intangible assets

PLN '000

	Computer software, licences, permits	Other	Total
Gross value of intangible assets			
Gross value as at Jan 1 2013	13,640	369	14,009
Produced internally	4,011	-	4,011
Other increase	392	-	392
Decrease	(165)	-	(165)
Gross value as at Dec 31 2013	17,878	369	18,247
Gross value as at Jan 1 2014	17,878	369	18,247
Produced internally	3,603	-	3,603
Other increase	801	-	801
Decrease	(2,257)	-	(2,257)
Gross value as at Dec 31 2014	20,025	369	20,394

PLN '000

	Computer software, licences, permits	Other	Total
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2013	(6,808)	(322)	(7,130)
Amortisation expense	(2,667)	(47)	(2,714)
Decrease	151	-	151
Accumulated amortisation and impairment losses as at Dec 31 2013	(9,324)	(369)	(9,693)
Accumulated amortisation and impairment losses as at Jan 1 2014	(9,324)	(369)	(9,693)
Depreciation and amortisation expense	(3,235)	-	(3,235)
Decrease	2,173	-	2,173
Accumulated amortisation and impairment losses as at Dec 31 2014	(10,386)	(369)	(10,755)

PLN '000

	Computer software, licences, permits	Other	Total
Net value			
As at Jan 1 2013	6,832	47	6,879
As at Dec 31 2013	8,554	-	8,554
As at Jan 1 2014	8,554	-	8,554
As at December 31st 2014,	9,639	-	9,639

16. Investments in subsidiaries

PLN '000	Dec 31 2014	Dec 31 2013
Other non-current investments		
Gross value of shares in subsidiaries	1,030,557	697,052
Impairment loss on shares	(89,061)	(36,532)
Net value of shares in subsidiaries	941,496	660,520

		Share capital held (%)	
PLN '000	Country	Dec 31 2014	Dec 31 2013
Secapital S.a.r.l. **	Luxembourg	84.4%	93.8%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o.	Poland	100%	100%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
Prokulus NS FIZ*	Poland	100%	100%
ProsperoCapital Sp.z.o.o.	Poland	100%	-
KRUK International Z.r.t. (in liquidation)	Hungary	100%	100%
InvestCapital Malta Ltd **	Malta	99.5%	99.5%
RoCapital IFN S.A.	Romania	99.0%	-
Kruk Deustschland Gmbh	Germany	100%	-

* Subsidiaries of Secapital S.a.r.l.
** Subsidiaries in which the Parent indirectly holds 100% of the share capital

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group prepared as at December 31st 2014 and for the period from January 1st to December 31st 2014.

In 2014, the Company received PLN 300 thousand as repayment of additional contributions to equity from its subsidiary Novum Finance Sp. z o.o.

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

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

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

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

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

In 2014, the Company cancelled loans advanced during the year to its subsidiary Kruk Romania S.r.l (PLN 20,405 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2014, the Company recognised an impairment loss on shares in KRUK Romania S.r.l. of PLN 20,405 thousand.

In 2014, the Company cancelled loans granted during the year to its subsidiary KRUK Česká a Slovenská republika s.r.o. (PLN 14,092 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2014, the Company recognised an impairment loss on shares in KRUK Česká a Slovenská republika s.r.o. of PLN 32,123 thousand.

17. Investments

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Investments		
Financial assets at fair value through profit or loss	39,884	47,894
Financial assets measured at amortised cost	2,939	-
Other investments	161	-
Loans advanced to related entities	62,772	1,118
Loans advanced to other entities	13,481	8,652
	119,237	57,664

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

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

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

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Purchased debt portfolios		
Bank loans, including:	40,319	44,803
- consumer loans	*39,483*	*43,562*
- car loans	*723*	*161*
- mortgage loans	*113*	*1,080*
Telecommunication bills	2,092	2,306
Cash loans (non-bank)	109	313
Other	303	472
	42,823	47,894

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

	Dec 31 2014	**Dec 31 2013**
Discount rate		
- risk-free	1.80%	3.24%
- risk premium*	7.92% - 151.4%	11.51%-166.12%
Period for which cash flows have been estimated:	Jan 2015 – Dec 2023	Jan 2014 – Dec 2023
Nominal value of expected future cash flows	84,848	98,025

** applicable to 99% of debt portfolios*

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

PLN '000 **Period**	**Dec 31 2014**	**Dec 31 2013**
Less than 6 months	17,925	19,513
From 6 to 12 months	14,215	16,554
From 1 to 2 years	21,451	24,553
From 2 to 5 years	27,438	33,179
Over 5 years	3,819	4,226
	84,848	98,025

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 Company updates the following parameters which are used to estimate 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 Company's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses on loans advanced and investments held to maturity, see Note 28.

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

PLN '000	
Purchased debt portfolios as at Jan 1 2013	40,995
Purchase of debt portfolios	5,462
Cash recoveries	(47,901)
Increase/(decrease) in liabilities to debtors due to overpayments	(467)
Revenue from debt purchase (interest and revaluation)	49,805
Purchased debt portfolios as at Dec 31 2013	47,894
Purchased debt portfolios as at Jan 1 2014	47,894
Purchase of debt portfolios	3,513
Cash recoveries	(52,098)
Increase/(decrease) in liabilities to debtors due to overpayments	-
Revenue from debt purchase (interest and revaluation)	43,514
Purchased debt portfolios as at Dec 31 2014	42,823

The Company grants its related entities one-year loans with an interest rate equal to 3M WIBOR + 3% margin. The loans are not secured.

In 2014, the Company recognised an impairment loss on loans advanced to KRUK Romania S.r.l. of PLN 1,406 thousand.

In 2014, the Company recognised an impairment loss on loans advanced to KRUK Česká a Slovenská republika s.r.o. of PLN 13,842 thousand.

In 2010, the Company commenced advancing loans to individuals not engaged in any business activity. Loans are granted for up to PLN 2.5 thousand and their maturities range from 3 to 15 months. The loans bear interest at fixed rates. Their average nominal interest rate is 16%. Additional revenue comprises commission fees, arrangement fees and insurance fees.

KRUK S.A. 44

18. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Liabilities		Net value	
	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013
Property, plant and equipment	1,488	1,628	(1,412)	(1,492)	76	136
Intangible assets	-	-	(1,483)	(1,309)	(1,483)	(1,309)
Loans advanced to other entities	1,800	634	-	-	1,800	634
Trade and other receivables	-	-	(127)	(380)	(127)	(380)
Liabilities under borrowings and other debt instruments	-	-	-	-	-	-
Employee benefit obligations	2,809	2,282	-	-	2,809	2,282
Provisions and liabilities	347	414	-	-	347	414
Other	27	503	-	-	27	503
Deferred tax assets/liabilities	6,471	5,461	(3,022)	(3,181)	3,449	2,280
Deferred tax assets offset against liabilities	(3,022)	(3,181)	3,022	3,181	-	-
Deferred tax assets/liabilities in the statement of financial position	3,449	2,280	-	-	3,449	2,280

Change in temporary differences in a period

PLN '000	As at Jan 1 2013	Change in temporary differences recognised as profit or loss of the current period	As at Dec 31 2013	As at Jan 1 2014	Change in temporary differences recognised as profit or loss of the current period	As at Dec 31 2014
Property, plant and equipment	(1,353)	1,489	136	136	(60)	76
Intangible assets	(1,096)	(213)	(1,309)	(1,309)	(174)	(1,483)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Loans advanced to other entities	-	634	634	634	1,166	1,800
Trade and other receivables	(311)	(69)	(380)	(380)	253	(127)
Employee benefit obligations	1,880	402	2,282	2,282	527	2,809
Provisions and liabilities	1,912	(1,498)	414	414	(67)	347
Other	165	338	503	503	(476)	27
Tax loss carry forwards	-	0	-	-	-	-
	1,197	1,083	2,280	2,280	1,169	3,449

19. Inventories

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Materials	290	204
Prepaid deliveries	-8%	68
	282	272

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

20. Trade and other receivables

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Trade receivables from related entities	9,889	23,879
Trade receivables from non-related entities	4,120	3,224
	14,009	27,103

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Other receivables from related entities	160,726	64,467
Other receivables from non-related entities	382	965
	161,108	65,432

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Change in receivables resulting from statement of financial position	(82,582)	(54,240)
Change in investment settlements	149,634	57,693
Dividend offset	(1,341)	
Change in receivables due to conversion to loan	(59,319)	
Change in receivables resulting from statement of cash flows	6,393	3,453

Other receivables from related entities relate primarily to sale of shares to a subsidiary (see Note 16).

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

21. Cash and cash equivalents

PLN '000	Dec 31 2014	Dec 31 2013
Cash in hand	5	40
Cash in current accounts	24,510	5,594
	24,515	5,634
Restricted cash	5	15

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

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

22. Equity

Share capital

	Ordinary shares	
'000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Number of shares as at Jan 1	16,959	16,900
Issue of shares	151	59
Number of fully-paid shares at end of the period	17,110	16,959

Company's shareholding structure as at December 31st 2014

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	2,069,662	2,069	12.09%
ING PTE (*)	1,835,643	1,836	10.73%
Aviva OFE	1,676,165	1,676	9.80%
Generali OFE	1,545,000	1,545	9.03%
Other members of the Management Board	230,841	231	1.35%
Other Shareholders	9,753,371	9,753	57.00%
	17,110,682	17,110	100.00%

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

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

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

The Management Board of the Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.), by virtue of Resolution No. 576/14 of September 24th 2014, resolved to register 64,501 Series E ordinary bearer shares of KRUK S.A., with a par value of PLN 1.00 per share, issued as part of a conditional share capital increase under Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A. dated March 30th 2011, and to assign to them ISIN code No. PLKRK0000010, provided that the operator of the regulated market agrees to introduce the shares to trading on the regulated market on which other Company shares are traded under ISIN code No. PLKRK0000010.

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

On November 14th 2014, the Management Board of Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange) passed Resolution No. 986/2014 to admit and introduce the Series E ordinary bearer shares to trading on the WSE main market. In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1-2 of the WSE Rules, 87,086 Series E ordinary bearer shares with a par value of PLN 1.00 per share were admitted to trading on the main market. Further, under the Resolution, pursuant to Par. 38.1 and Par. 38.3 of the WSE Rules, the WSE Management Board decided to introduce the Company shares referred to above to trading on a regulated market on November 26th 2014 provided that on November 16th 2014 the Polish National Depository for Securities registers the shares and assigns to them ISIN code No. PLKRK0000010.

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

Other capital reserves

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

Share-based payments

In 2011, KRUK S.A. launched a share-based payment plan, which provides for the grant of rights to purchase shares at an agreed price (the Option Plan). The total cost of the Option Plan recognised in profit or loss for 2011, 2012, 2013 and 2014 was PLN 890 thousand, PLN 2,346 thousand, PLN 2,578 thousand and PLN 5,451 thousand, respectively. The amount increased the Company's other capital reserves.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exercised warrants

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

23. Earnings per share

Basic earnings per share

As at December 31st 2014, basic earnings per share were calculated based on net profit attributable to owners of the Company (holding ordinary shares) of PLN 311,382 thousand (2013: PLN 17,751 thousand) and the weighted average number of shares in the period covered by the financial statements of 16,957 thousand (2013: 16,914 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Company

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Net profit attributable to owners of the Parent (basic)	311,382	17,751

Weighted average number of ordinary shares

'000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Number of ordinary shares as at Jan 1	16,959	16,900
Effect of cancellation and issue of shares	(2)	14
Weighted average number of ordinary shares in the period ended Dec 31	16,957	16,914
PLN		
Earnings per share	18.36	1.05

Diluted earnings per share

As at December 31st 2014, diluted earnings per share were calculated based on net profit attributable to owners of the Company (holding ordinary shares) of PLN 311,382 thousand and the weighted average number of shares in the period covered by the financial statements of 17,407 thousand. The amounts were determined as follows:

'000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Weighted average number of ordinary shares in the period ended Dec 31	16,957	16,914
Effect of share option issue	450	323
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)	17,407	17,237
PLN		
Earnings per share	17.89	1.03

24. Liabilities under borrowings and other debt instruments

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

Terms and repayment schedule of borrowings and other debt instruments

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2014**	**Dec 31 2013**
Borrowings secured on the Company's assets	PLN; EUR	1M WIBOR + margin 1.0-3.0 pp; 3M WIBOR + margin 2.0 pp; 1M EURIBOR + margin 2.25-2.5 pp	2024	287,799	74,889
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin 3.35-4.6 pp	2020	489,492	574,539
Finance lease liabilities	EUR	3M WIBOR or 1M EURIBOR + margin 0.68-3.7 pp	2018	7,835	8,569
				785,126	657,997

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at Dec 31 2013			
up to 1 year	2,703	111	2,592
from 1 to 5 years	6,128	151	5,977
	8,831	262	8,569
As at December 31st 2014,			
up to 1 year	3,228	92	3,136
from 1 to 5 years	4,814	117	4,697
	8,042	209	7,834

Security over assets

PLN '000	Dec 31 2014	Dec 31 2013
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	480,146	158,976
Property, plant and equipment under finance leases	7,465	7,240
	487,611	166,216

25. Employee benefit obligations

PLN '000	Dec 31 2014	Dec 31 2013
Salaries and wages payable	3,645	3,333
Social benefit obligations	3,492	3,224
Personal income tax	924	831
Accrued holidays	2,944	2,207
Accrued salaries and wages (bonuses)	7,711	6,544
Special accounts	-	23
	18,716	16,162

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2013	1,619
Increase	2,869
Use	(2,281)
Value as at Dec 31 2013	2,207
Value as at Jan 1 2014	2,207
Increase	2,874
Use	(2,137)
Value as at Dec 31 2014	2,944
Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2013	5,497
Increase	16,874
Use	(15,674)
Release	(153)
Value as at Dec 31 2013	6,544
Value as at Jan 1 2014	6,544
Increase	20,163
Use	(17,166)
Release	(1,830)
Value as at Dec 31 2014	7,711

26. Current provisions

Tax risk

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

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

27. Trade and other payables

Current liabilities

PLN '000	**Dec 31 2014**	**Dec 31 2013**
Trade payables to related entities	5,209	16,195
Trade payables to other entities	4,220	7,612
Deferred income	1,777	387
Taxes, customs duties, insurance and other benefits payable	510	1,432
Accrued expenses	766	595
Other liabilities	1,932	2,117
	14,414	28,338

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Change in liabilities resulting from statement of financial position	(13,924)	6,789
Capital cancellation offset	3,350	-
Dividend offset	12,060	-
Offset of loan advanced	(1,528)	-
SWAP contract valuation	(2,059)	-
Change in liabilities resulting from statement of cash flows	(2,101)	6,789

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

28. Financial instruments

Credit risk

Exposure to credit risk

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

PLN '000

	Note	Dec 31 2014	Dec 31 2013
Financial instruments at fair value through profit or loss	*17*	39,884	47,894
Financial assets measured at amortised cost	*17*	2,939	-
Other investments	*17*	161	-
Loans	*17*	76,253	9,770
Receivables	*20*	175,117	92,535
Cash and cash equivalents	*21*	24,515	5,634
		318,869	155,833

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

PLN '000

	Dec 31 2014	Dec 31 2013
Poland	261,819	107,980
Romania	37,942	43,947
Czech Republic	19,108	3,906
	318,869	155,833

Impairment losses

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

PLN '000	**Gross value** **Dec 31 2014**	**Impairment loss** **Dec 31 2014**	**Gross value** **Dec 31 2013**	**Impairment loss** **Dec 31 2013**
Not past due	165,223	-	82,914	-
Past due, 1-30 days	928	-	820	-
Past due, 31-90 days	679	-	832	-
Past due, 91-180 days	524	-	1,014	-
Past due, 181-365 days	1,681	112	1,640	197
Past due, over one year	7,708	1,514	7,459	1,947
	176,743	1,626	94,679	2,144

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Impairment loss as at Jan 1	2,144	1,302
Impairment loss recognised in the period	1,631	1,951
Reversal of impairment loss	(2,078)	(134)
Use of impairment loss	(71)	(975)
Impairment loss as at Dec 31	1,626	2,144

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

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

In 2012-2014, the Company did not recognise any general impairment losses for receivables.

In 2014, the Company cancelled loans advanced during the year to its subsidiary Kruk Romania S.r.l (PLN 20,405 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2014, the Company cancelled loans advanced during the year to its subsidiary KRUK Česká a Slovenská republika s.r.o. (PLN 14,092 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

Below are presented changes in impairment losses on loans advanced to other entities:

PLN '000	**Jan 1 2014 – Dec 31 2014**	**Jan 1 2013 – Dec 31 2013**
Impairment loss as at Jan 1	928	-
Impairment loss recognised in the period	-	928
Reversal of impairment loss	(6)	-
Impairment loss as at Dec 31	922	928

As at December 31st 2014, the gross value of loans advanced to individuals was PLN 14,402 thousand (December 31st 2013: PLN 9,580 thousand). The Company recognised an impairment loss on loans advanced of
PLN 922 thousand as at December 31st 2014 (2013: PLN 928 thousand). The amount of impairment losses is determined for the entire portfolio based on estimated recoverability of advanced loans, which is established principally on the basis of loan delinquency periods.

Liquidity risk

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2013
PLN '000

	Present value	**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	74,889	81,888	7,373	29,819	22,163	22,533	-
Unsecured bonds in issue	574,539	687,468	73,338	82,452	48,742	482,936	-
Finance lease liabilities	8,569	8,831	1,332	1,371	2,849	3,279	-
Hedge derivatives	634	634	383	251	-	-	
Trade and other payables	28,338	28,338	28,338	-	-	-	-
	686,969	807,159	110,764	113,893	73,754	508,748	-

As at December 31st 2014,
PLN '000

	Present value	**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	287,799	387,593	7,335	31,032	9,608	62,187	277,431
Unsecured bonds in issue	489,492	571,761	32,341	15,196	203,086	273,842	47,296
Finance lease liabilities	7,835	7,937	1,604	1,646	2,338	2,349	-
Trade and other payables	14,414	14,414	14,414	-	-	-	-

799,540	981,705	55,694	47,874	215,032	338,378	324,727

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2013 and December 31st 2014, respectively.

The Company does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

As at December 31st 2014, the undrawn revolving credit facility limit available to the Company was PLN 77,800 thousand (2013: PLN 57,950 thousand). The undrawn limit is available until July 31st 2015.

Currency risk

Exposure to currency risk

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

PLN '000	**Dec 31 2014**			**Dec 31 2013**		
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	55	2,800	271	184	2,384	263
Cash	152	1,830	1,003	37	709	214
Financial assets at fair value through profit or loss	720	40,045	2,334	1,173	40,854	2,256
Financial assets measured at amortised cost	-	2,939	-	-	-	-
Liabilities under borrowings and other debt instruments	(15,807)	-	-	-	-	-
Trade payables	(7,937)	(431)	(110)	(8,663)	(5,785)	(168)
Exposure to currency risk	(22,817)	47,183	3,498	(7,269)	38,162	2,565

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

PLN	**Average exchange rates**		**End of the period (spot rates)**	
	Jan 1 2014 – Dec 31 2014	**Jan 1 2013 – Dec 31 2013**	**Dec 31 2014**	**Dec 31 2013**
EUR 1	4.1893	4.2110	4.2623	4.1472
USD 1	3.1784	3.1653	3.5072	3.0120
RON 1	0.9440	0.9543	0.9510	0.9262
CZK 1	0.1521	0.1620	0.1537	0.1513
HUF 100	1.3528	1.4134	1.3538	1.3969

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

PLN '000

	Other comprehensive income	Profit or loss of the current period
Dec 31 2014		
EUR (10% appreciation of PLN)	-	2,282
RON (10% appreciation of PLN)	-	(4,718)
CZK (10% appreciation of PLN)	-	(350)
Dec 31 2013		
EUR (10% appreciation of PLN)	-	727
RON (10% appreciation of PLN)	-	(3,816)
CZK (10% appreciation of PLN)	-	(257)

Interest rate risk

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

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

PLN '000	Carrying amount	
	Dec 31 2014	Dec 31 2013
Fixed-rate financial instruments		
Financial assets	191,537	101,187
Financial liabilities	(14,409)	(28,338)
	177,128	72,849
Hedging effect	(124,000)	(124,000)
	53,128	(51,151)
Floating-rate financial instruments		
Financial assets	102,656	1,118
Financial liabilities	(785,126)	(657,997)
	(682,470)	(656,879)
Hedging effect	124,000	124,000
	(558,470)	(532,879)

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

The Company does not hold any fixed-interest financial assets or liabilities measured at fair value through profit or loss, nor does it use derivative transactions (IRSs) as fair value hedges. Therefore, a change of an interest rate would have no effect on current period's profit or loss.

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

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

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

PLN '000	**Profit or loss of the current period**		**Equity excluding profit or loss of the current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2014				
Floating-rate financial instruments	(30,575)	30,516	-	-
Dec 31 2013				
Floating-rate financial instruments	(5,904)	5,904	2,078	(2,159)

Fair values

Comparison between fair values and carrying amounts

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

PLN '000	**Dec 31 2014**		**Dec 31 2013**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss	39,884	39,884	47,894	47,894
Hedge derivatives	2,668	2,668	(634)	(634)
	42,552	42,552	47,260	47,260
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	2,939	2,783	-	-
Loans and receivables	76,253	76,253	102,305	102,305
Cash and cash equivalents	24,515	24,515	5,634	5,634
Secured bank borrowings	(287,799)	(287,799)	(74,889)	(74,889)
Unsecured bonds in issue	(489,492)	(489,492)	(574,539)	(574,539)
Finance lease liabilities	(7,835)	(7,835)	(8,569)	(8,569)
Trade and other payables	(14,414)	(14,414)	(28,338)	(28,338)
	(695,833)	(695,989)	(578,396)	(578,396)

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

Interest rates used for the assessment of fair value

	Dec 31 2014	Dec 31 2013
Financial assets at fair value through profit or loss	7.92% - 151.4%	14.75%-169.36%
Borrowings	5.08%-2.25%	5.11%-6.86%
Unsecured bonds in issue	5.41%-7.06%	6.21%-7.71%
Finance lease liabilities	0.68%-3.77%	0.68%-4.0%

Hierarchy of financial instruments measured at fair value

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

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

No transfers were made between the levels.

PLN '000	Level 3
As at Dec 31 2014	
Financial assets at fair value through profit or loss	39,884
As at Dec 31 2013	
Financial assets at fair value through profit or loss	47,894

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

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

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

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

29. Operating lease

Operating lease agreements with the Company as a lessee

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

PLN '000	**Dec 31 2014**	**Dec 31 2013**
up to 1 year	1,829	2,637
from 1 to 5 years	3,678	1,779
	5,507	4,416

Material operating lease agreements include:

- Agreement for the use of property with an area of 2,216 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed fora term of ten years, is terminable after the initial period of five years. The annual cost of use is PLN 1,013 thousand.
- Agreement for the use of property with an area of 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 EUR 460 thousand.

30. Related-party transactions

Remuneration of the management personnel

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

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

Other related-party transactions

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

Transactions with subsidiaries as at December 31st 2014

Balance of liabilities, receivables and loans as at the reporting date

PLN '000	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
Secapital S.a.r.l.	-	5,187	-	-
ERIF Business Solutions Sp. z o.o.	-	1	-	-
Novum Finance Sp. z o.o.	408	15	-	-
Secapital Polska Sp. z o.o.	-	3	20	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	1,574	3 847	-	-
KRUK Romania S.r.l.	409	3,267	-	-
Rejestr Dłużników ERIF BIG S.A.	36	257	170	81
NSFIZ PROKURA	2,702	7,521	-	-
NSFIZ PROKULUS	-	8	-	-
KRUK Česká a Slovenská republika s.r.o.	80	1,070	-	-
KRUK TFI	-	5	-	-
InvestCapital Malta Ltd.	-	149,470	62,469	-
	5,209	170,651	62,659	81

Revenue from mutual transactions

PLN '000	Revenue from sale of debt collection services	Revenue from sale of materials and services and other revenue	Interest and dividends
Secapital S.a.r.l	1,248	-	423,319
ERIF Business Solutions Sp. z o.o.	-	61	115
Novum Finance Sp. z o.o.	-	110	-
Secapital Polska Sp. z o.o.	-	19	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	1,046	3,225
KRUK Romania S.r.l.	-	930	798
Rejestr Dłużników ERIF BIG S.A.	-	369	13
NSFIZ PROKURA	30,550	-	-
NSFIZ PROKULUS	112	-	-
KRUK Česká a Slovenská republika s.r.o.	-	503	1,587
KRUK TFI	-	57	-
InvestCapital Malta Ltd.	-	-	3,145
	31,910	3,095	432,202

Costs of mutual transactions

PLN '000	Value of financial assets sold	Purchase of services
Rejestr Dłużników ERIF BIG S.A.	-	549

Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	2,804
KRUK Romania S.r.l.	-	6,270
KRUK Česká a Slovenská republika s.r.o.	-	276
InvestCapital Malta Ltd.	126,475	-
	126,475	9,899

Transactions with subsidiaries as at and for the period ended December 31st 2013

Balance of liabilities, receivables and loans

PLN '000	**Liabilities**	**Receivables**	**Loans advanced**	**Interest accrued on loans advanced**
Secapital S.a.r.l	12,605	13,847	-	-
ERIF Business Solutions Sp. z o.o.	-	19	860	20
Novum Finance Sp. z o.o.	218	81	-	-
Secapital Polska Sp. z o.o.	-	1	-	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	831	5,004	-	-
KRUK Romania S.r.l.	506	3,175	-	-
Rejestr Dłużników ERIF BIG S.A.	-	399	170	68
NSFIZ PROKURA	2,035	5,772	-	-
NSFIZ PROKULUS	-	12	-	-
KRUK Česká a Slovenská republika s.r.o.	-	712	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	5	-	-
InvestCapital Malta Ltd.	-	59,319	-	-
	16,195	88,346	1,030	88

Revenue from mutual transactions

PLN '000	**Revenue from sale of financial assets**	**Revenue from sale of materials and services**	**Revenue from sale of debt collection services**	**Interest and dividends**
Secapital S.a.r.l	-	-	1,051	114,313
ERIF Business Solutions Sp. z o.o.	-	30	-	20
Novum Finance Sp. z o.o.	-	361	61	51
Secapital Polska Sp. z o.o.	-	19	-	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	1,235	-	6,321
KRUK Romania S.r.l.	-	631	-	654
Rejestr Dłużników ERIF BIG S.A.	-	484	-	34
NSFIZ PROKURA	-	96	23,193	-
NSFIZ PROKULUS	-	62	66	-
KRUK Česká a Slovenská republika s.r.o.	-	419	-	888
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	51	-	-
InvestCapital Malta Ltd.	59,319	-	-	-
	59,319	3,388	24,371	122,281

Costs of mutual transactions

PLN '000	**Value of financial assets sold**	**Purchase of services**
ERIF Business Solutions Sp. z o.o.	-	1
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	2,614
KRUK Romania S.r.l.	-	5,914
Rejestr Dłużników ERIF BIG S.A.	-	1,656
Novum Finance Sp. z o.o.	-	1,477
KRUK Česká a Slovenská republika s.r.o.	-	462
InvestCapital Malta Ltd.	43,230	-
	43,230	12,124

31. Auditor's fees

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

32. Contingent liabilities

On January 15th 2014, KRUK S.A. and Bank Zachodni WBK S.A. executed Annex No. 1 to the bank guarantee agreement of January 14th 2013, valid in the period from January 25th 2013 to January 24th 2014 and securing the payment of all liabilities towards LEGNICKA BUSINESS HOUSE Sp. z o.o. under an office space lease agreement between KRUK S.A. and LEGNICKA BUSINESS HOUSE Sp. z o.o. Under the annex, the guarantee term was extended until January 24th 2015. The guarantee amount did not change and stands at EUR 168,000.00.
On January 15th 2014, KRUK S.A. and Bank Zachodni WBK S.A. executed Annex No. 1 to the bank guarantee agreement of February 18th 2013, valid in the period from February 25th 2013 to February 24th 2014 and securing the payment of all liabilities towards DEVCO Sp. z o.o. under an office space lease agreement between KRUK S.A. and DEVCO Sp. z o.o. Under the annex, the guarantee term was extended until February 24th 2015. The guarantee amount did not change and stands at EUR 135,420.75.
Pursuant to a revolving credit facility agreement executed between KRUK S.A. and Bank Zachodni WBK of Wrocław, and to a trilateral revolving credit facility agreement executed between KRUK S.A., PROKURA NS FIZ and BZ WBK, on May 7th 2014, in order to secure claims arising from these agreements, KRUK S.A. and BZ WBK S.A. entered into an agreement to establish a registered pledge, financial pledge and a first priority pledge under Luxembourg law. The pledges were established over 60,164 Class E shares in Secapital S.a.r.l. of Luxembourg, the Company's subsidiary, to secure the Bank's claims under the above credit facility agreements with a total amount of PLN 140m and any related claims, up to the maximum security amount of PLN 200m.

33. Events subsequent to the reporting date

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

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

Piotr Krupa *President of the Management Board*	**Agnieszka Kułton** *Member of the Management Board*	**Urszula Okarma** *Member of the Management Board*

Iwona Słomska *Member of the Management Board*	**Michał Zasępa** *Member of the Management Board*

Katarzyna Raczkiewicz
Person responsible for maintaining the accounting records

Wrocław, March 6th 2015