KRUK S.A.

Separate financial statements

for the year ended December 31st 2016

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

KRUK S.A.
December 31st 2016

Separate financial statements

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Separate statement of financial position

As at December 31st 2016
PLN '000

		Note	Dec 31 2016	Dec 31 2015
Assets				
	Cash and cash equivalents	21	162,936	5,206
	Trade receivables from related entities	20	38,883	10,562
	Trade receivables from other entities	20	3,301	3,029
	Investments	17	162,976	94,725
	Other receivables	20	15,292	15,107
	Inventories	19	188	232
	Property, plant and equipment	14	21,019	14,027
	Intangible assets	15	13,261	10,735
	Deferred tax asset	18	-	2,863
	Investments in subsidiaries	16	1,940,043	1,283,073
	Other assets		4,402	2,118
Total assets			2,362,301	1,441,677
Equity and liabilities				
Liabilities				
	Hedge derivatives	28	-	589
	Trade and other payables	27	39,152	26,095
	Employee benefit obligations	25	19,742	22,363
	Current tax liability		3,514	3,178
	Liabilities under borrowings and other debt instruments	24	1,594,626	889,916
	Deferred tax liability	18	4,018	-
Total liabilities			1 661 051	942,141
Equity				
	Share capital	22	18,744	17,398
	Share premium		288,326	64,382
	Other capital reserves		76,659	68,957
	Retained earnings		317,522	348,800
Total equity			701,251	499,537
Total equity and liabilities			2,362,301	1,441,677

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

Separate statement of profit or loss

For the year ended December 31st 2016
PLN '000

	Note	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Revenue	*6*	132,126	115,739
Other income	*7*	1,164	1,049
		133,290	116 788
Merchandise and materials sold		-	-
Employee benefits expense	*10*	(102,969)	(107,024)
Depreciation and amortisation expense	*14,15*	(9,115)	(6,538)
Contracted services	8	(38,413)	(30,114)
Other expenses	*9*	(32,566)	(26,714)
		(183,063)	(170 391)
Operating loss		(49,774)	(53,603)
Finance income	*11*	135,196	199,109
Finance costs	*11*	(67,094)	(104,986)
Net finance income		68,102	94,122
Profit before tax		18,328	40,519
Income tax	*12*	(14,116)	(4,676)
Net profit for period		4,212	35,843
Earnings per share			
Basic (PLN)	*23*	0.24	2.08
Diluted (PLN)	*23*	0.23	2.01

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

Separate statement of comprehensive income

For the year ended December 31st 2016
PLN '000

	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Net profit for period	**4,212**	**35,843**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	-	-
Income tax on other comprehensive income	-	-
Items that will not be reclassified subsequently to profit or loss	-	-
Income tax on other comprehensive income	-	-
Other comprehensive income, net, for period	-	-
Total comprehensive income for period	4,212	35,843
Comprehensive income/(loss) per share		
Basic (PLN)	0.24	2.08
Diluted (PLN)	0.23	2.01

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

Separate statement of changes in equity

For the year ended December 31st 2016
PLN '000

	Note	Share capital	Share premium	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2015		17,110	53,249	55,624	338,895	464,878
Comprehensive income for period						
Net profit for period		-	-	-	35,843	35,843
Other comprehensive income		-	-	-	-	-
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for period		-	-	-	35,843	35,843
Contributions from and distributions to owners						
- Payment of dividends					(25,938)	(25,938)
- Share-based payments		-	-	13,333	-	13,333
- Issue of shares		288	11,133	-	-	11,421
Total contributions from and distributions to owners		288	11,133	13,333	(25,938)	(1,184)
Total equity as at Dec 31 2015		17,398	64,382	68,957	348,800	499,537
Equity as at Jan 1 2016		17,398	64,382	68,957	348,800	499,537
Comprehensive income for period						
Net profit for period		-	-	-	4,212	3,699
Total comprehensive income for period		-	-	-	4,212	3,699
Contributions from and distributions to owners						
- Payment of dividends	*23*	-	-	-	(35,491)	(35,491)
- Share-based payments	*31*	-	-	7,702	-	7,702
- Issue of shares	*22*	1,346	223,944	-	-	225,290
Total contributions from and distributions to owners		1,346	223,944	7,702	(35,491)	197,501
Total equity as at Dec 31 2016		18,744	288,326	76,659	317,552	701,251

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

Separate statement of cash flows

For the year ended December 31st 2016
PLN '000

	Note	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Cash flows from operating activities			
Net profit for period		4,212	35,843
Adjustments			
Depreciation of property, plant and equipment	*14*	5,187	3,078
Amortisation of intangible assets	*15*	3,926	3,460
Net finance income		(70,272)	(95,805)
Gain on sale of property, plant and equipment		(214)	(16)
Equity-settled share-based payments		7,701	13,332
Income tax		14,116	4,675
Change in other investments		22,013	(8,533)
Change in debt portfolios purchased	*17*	(2,700)	(4,384)
Change in inventories		44	49
Change in receivables		(50,630)	138,472
Change in other assets		(2,284)	(454)
Change in trade and other payables		10,384	15,652
Change in employee benefit obligations		(2,621)	3,647
Income tax paid		(4,738)	(2,635)
Net cash from operating activities		(65,875)	106,380
Cash flows from investing activities			
Interest received		165	75
Loans advanced		(169,268)	(81,381)
Sale of intangible assets and property, plant and equipment		825	263
Dividends received		116,303	190,844
Proceeds from cancellation of shares in subsidiaries		329,678	148,673
Purchase of intangible assets and property, plant and equipment		(10,372)	(7,271)
Acquisition of shares in subsidiaries		(927,575)	(490,975)
Repayment of loans advanced		65,513	68,202
Net cash from investing activities		(594,732)	(171,571)
Cash flows from financing activities			
Net proceeds from issue of shares		225,290	11,420
Proceeds from issue of debt securities		832,868	243,359
Increase in borrowings		1,282,192	587,415
Repayment of borrowings		(1,262,008)	(682,524)
Redemption of debt securities		(154,000)	(41,000)
Payments under finance lease agreements		(4,279)	(3,577)
Dividends paid	*23*	(35,491)	(25,938)
Interest paid		(66,235)	(43,274)
Net cash from financing activities		818,337	45,881
Total net cash flows		157,730	(19,309)
Cash and cash equivalents at beginning of period		5,206	24,515
Cash and cash equivalents at end of period	*21*	162,936	5,206

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

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prepared in accordance with the IFRS endorsed by the EU (PLN '000)

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 2016 and as at the date of authorisation 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 2016 and as at the date of authorisation 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

2.1. Statement of compliance

These separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on February 27th 2017.

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").

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.

2.2. Basis of preparation

These financial statements have been prepared for the reporting period from January 1st to December 31st 2016. The comparative data has been presented as at December 31st 2015 and for the period from January 1st 2015 to December 31st 2015.
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,

The methods of measuring fair value are presented in Note 3.

2.3. 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.

2.4. 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.

Information on judgements concerning the application of accounting policies which most significantly affect the amounts presented in the financial statements:

Item	Amount estimated		Note No.	Assumptions and estimate calculation
	2015 *(PLN '000)*	**2016 *(PLN '000)***		
Investments	94,725	162,976	3.6	The value of a purchased debt portfolio as at the measurement date is determined on the basis of reliably estimated value, calculated using an estimation model relying on expected discounted cash flows. The expected cash flows can be estimated with the use of comparative and statistical methods (statistical analysis), behavioural methods or based on the legal and economic analysis of individual claims or debtors (case-by-case analysis). The method for estimating cash flows under a debt portfolio is selected based on the available profiles of individual debtors and claims, as well as historical data collected in the course of managing the portfolio. The Kruk Group prepares projections for recoveries from debt portfolios independently for individual markets. The projections, among other things, account for: historical debtor behaviour, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.
Deferred tax assets	2,863	0	3.15	The Company determines deferred tax assets as the amount of income tax recoverable in the future in connection with deductible temporary differences, which will reduce future taxable profit, and any deductible tax loss, determined in accordance with the prudence principle.
Deferred tax liabilities	0	4.018	3.15	The Company recognises deferred tax liabilities at amounts of income tax payable in future in connection with taxable temporary differences, i.e. differences which will increase future taxable profit.

3. Significant accounting policies

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

3.1. Foreign currencies

3.1.1. 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.

3.2. Financial instruments

3.2.1. 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 Company has the positive intention and ability to hold to maturity, other than:

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

<u>Purchased debt portfolios</u>

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the 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 an 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 fair value, calculated using an estimation model relying on expected discounted cash flows, including recoveries and collection costs at market rates.

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.

Discount rates applied to expected cash flows reflect the credit risk relating to a given portfolio. Credit risk is assessed with respect to cash flows from an entire portfolio, rather than to cash flows generated by individual debtors. 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.

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.

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

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

Loans and receivables

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

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

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

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate calculated as specified above, and is recognised in profit or loss of the current period. All interest income is recognised as an increase in the portfolio value. The actual cash flows received from collections during the period are recognised as a decrease in the portfolio value.
The value of an asset as at the reporting date is its initial value (acquisition price plus transaction costs) increased by interest income, decreased by actual cash flows and adjusted to reflect any updates (changes) to cash flow estimates. Consequently, the value of an asset as at the reporting date is equal to the discounted estimated cash flows relating to the asset.
Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash flows for the portfolio are disclosed as revenue earned in a given period.

Financial assets available for sale

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

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

Financial assets are derecognised from the statement of financial position if the 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.

3.2.2. 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.

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.

The Company holds the following financial liabilities: borrowings, liabilities under debt securities, and trade and other payables.
The Company presents liabilities related to purchased debt portfolios under trade payables.

3.2.3. 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.

3.2.4. 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.

3.3. Property, plant and equipment

3.3.1. Recognition and measurement

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

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

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

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

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

3.3.2. 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.

3.3.3. Depreciation and amortisation expense

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.

3.4. Investment property

3.4.1. Recognition and measurement

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

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

3.5. Intangible assets

3.5.1. Recognition and measurement

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

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

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

3.5.2. 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.

3.5.3. Depreciation and 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.

3.5.4. 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.

3.6. Investments

Investments include:

- Purchased debt portfolios measured at fair value through profit or loss; for rules to be followed in the valuation of such portfolios, see Section 3.2.1;
- Debt portfolios measured at amortised cost; for rules to be followed in the valuation of such portfolios, see Sections 3.2.1 and 3.8.1;
- Investment property; for rules to be followed in the valuation of investment property, see Section 3.4;

3.7. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks, as well as short-term deposits with original maturities of up to three months. Cash is disclosed in nominal amounts. In the case of cash in bank accounts, its nominal amount as at the reporting date includes accrued interest.

3.8. Impairment losses on assets

3.8.1. 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.

3.8.2. 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.

3.9. Employee benefits

3.9.1. 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.

3.9.2. 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.

3.9.3. 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.

Valuation of the plan has been performed using the Black-Scholes model. 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 the exercise of acquired subscription warrants is 1.4 years.

3.10. Provisions

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.

3.11. Shares in subsidiaries

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

3.12. Revenue

3.12.1. Revenue from debt collection

Revenue from debt collection 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.

<u>Revenue from debt portfolios measured at amortised cost</u>

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.

3.12.2. 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.

3.12.3. 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.

3.13. 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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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.

3.18. 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 2016 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.

3.18.1. 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 2016:

- IFRS 9 *Financial Instruments* (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018;

On November 22nd 2016, the European Commission published the final text of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and measurement*. IFRS 9 covers the classification and measurement of financial instruments, impairment of financial instruments and trade receivables, as well as hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1st 2018, with an early adoption option. Requirements concerning classification, measurement and impairment apply retrospectively; however, presentation of comparative data is not mandatory. Requirements concerning hedge accounting apply prospectively, with few exceptions.
The Group intends to adopt the new standard as of its effective date. In 2016, the Group performed an initial assessment of the impact of its implementation in all the three areas. The initial assessment was based on the then available information and is subject to change depending on further detailed analyses or availability of new information to the Group in the future. The Group expects a significant effect of the new standard on its assets and equity.

(a) Classification and measurement

IFRS 9 requires that, after initial recognition, a debt financial asset should be measured at amortised cost or at fair value based on the entity's business model of financial asset management and on the asset's contractual cash flow characteristics.

The Group initially assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value will be measured at amortised cost, after the standard takes effect. The Group's business model provides for maintaining financial assets in order to generate cash flows from purchased debt portfolios, and the cash flows relate exclusively to repayment of principal and of interest on the balance of unpaid principal.

The Group does not expect the new standard to materially affect its other financial assets, including loans advanced. The current classification of loans advanced is compliant with the new standard.

(b) Impairment

IFRS 9 requires recognition of the effect of expected credit losses on all financial assets measured at amortised cost, that is on purchased debt portfolios, loans advanced and trade receivables.

Debt portfolios which are currently measured at amortised cost are adjusted for the effect of future expected credit losses. As the Group purchases materially impaired debt portfolios, the effect of the impairment is already included in the purchase price.

Accordingly, the Group does not expect the new regulations concerning recognition of expected credit losses to have a material effect on the measurement of its financial assets.

(c) Hedge accounting

As at the reporting date, the Group had no open hedging contracts. The Group believes that the hedging contracts it entered into in the past would still qualify for hedge accounting under IFRS 9 and would have no effect on profits for past years.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (published on November 21st 2013) – effective for annual periods beginning on or after July 1st 2014; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,
- Amendments to IFRS introduced as part of the 2010-2012 improvements cycle (published on December 12th 2013) – some of the amendments are effective for annual periods beginning on or after July 1st 2014, while some are effective prospectively for transactions entered into on or after July 1st 2014; within the EU, effective at the latest for annual periods beginning on or after February 1st 2015,
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (published on May 6th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (published on May 12th 2014) – effective for annual periods beginning on or after January 1st 2016,
- IFRS 15 *Revenue from Contracts with Clients* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (published on June 30th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* (published on August 12th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 1 *Disclosure Initiative* (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016.

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

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

- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − work leading to the approval of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period,

- IFRS 9 *Leases* (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts* (published on September 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Clarifications to IFRS 15 *Revenue from Contracts with Clients* (published on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.
- Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2014−2016 Cycle (published on December 8th 2016); as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; amendments to IFRS 12 and IFRS 1 are effective for annual periods beginning on or after January 1st 2017; amendments to IAS 28 are effective for annual periods beginning on or after January 1st 2018,
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 40 *Transfers of Investment Property* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.

4. 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.

4.1. 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.

Trade and other receivables

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

The 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 Management Board believes that the Group's credit risk is low as the Group's counterparties are mainly financial institutions and reputable companies. The Company's exposure to credit risk results mainly from the individual profile of each client. The Company's largest client (excluding the subsidiaries) accounts for 2.66% of the Company's revenue (2015: 1.49%), and the respective percentages for the Company's related entities are 25.73% and 21.39%. Receivables from the Company's largest client among its non-related entities accounted for 6.58% of total gross trade receivables as at December 31st 2016 (December 31st 2015: 1.21%), and in the case of related entities the percentages were 6.58% and 22.62%, 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 enforcement order
  - court collection
  - bailiff collection.

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

The 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 this report, 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.

4.2. 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 funding, in the form of bank borrowings or bonds.

4.3. 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 2016, assets denominated in foreign currencies accounted for 2.12% of total assets, while liabilities denominated in foreign currencies represented 9.1% of total liabilities (December 31st 2015: 2.64% and 4.6%, respectively).

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.

4.4. Capital management

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 Group aims to achieve a high return on equity; in the reporting period from January 1st 2016 to December 31st 2016 this ratio, computed as the ratio of net profit for the reporting period to equity less net profit, was 25.15% (2015: 31.31%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 4.57% (2015: 4.86%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and finance leases to total equity, was 1.33 as at December 31st 2016 (December 31st 2015: 1.78).

In the reporting period from January 1st 2016 to December 31st 2016, there were no changes in the Company's approach to capital management.

5. Reporting and geographical segments

Reporting segments

Below, the Company presents its principal reporting segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated financial statements. 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: financial intermediation, lending, provision of business information.

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

Revenue from credit management and revenue from other products represent external revenue.

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Reporting and geographical segments

For the year ended December 31st 2016

	Poland	Romania	Other foreign markets	TOTAL
Revenue	**84,974**	**44,666**	**2,486**	**131,613**
Purchased debt portfolios	5,569	43,695	1,445	**50,709**
Credit management	67,029	-	-	**67,029**
Other products	12,376	971	1,041	**14,388**
Direct and indirect costs				**(105,095)**
Purchased debt portfolios	-	-	-	**(16,751)**
Credit management	-	-	-	**(78,963)**
Other products	-	-	-	**(9,381)**
Gross profit				**26,518**
Purchased debt portfolios	-	-	-	**33,958**
Credit management	-	-	-	**(12,447)**
Other products	-	-	-	**5,007**
Administrative expenses	-	-	-	**(64,497)**
Depreciation and amortisation expense	-	-	-	**(9,115)**
Other income	**-**	**-**	**-**	**(3,192)**
Finance income/costs	**-**	**-**	**-**	**68,102**
Profit before tax	**-**	**-**	**-**	**18,328**
Income tax	**-**	**-**	**-**	**14,116**
Net profit	-	-	-	**4,212**
Carrying amount of debt portfolios	**9,709**	**30,377**	**3,202**	**43,288**

prepared in accordance with the IFRS endorsed by the EU (PLN '000) KRUK S.A. 36

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For the year ended December 31st 2015

	Poland	Romania	Other foreign markets	TOTAL
Revenue	**73,188**	**40,204**	**2,346**	**115,739**
Purchased debt portfolios	15,624	39,092	1,962	**56,678**
Credit management	45,246	-	-	**45,246**
Other products	12,318	1,112	384	**13,815**
Direct and indirect costs				**(94,705)**
Purchased debt portfolios	-	-	-	**(85,075)**
Credit management	-	-	-	**(8,370)**
Other products	-	-	-	**(1,260)**
Gross profit				**(94,589)**
Purchased debt portfolios	-	-	-	**(85,018)**
Credit management	-	-	-	**(8,325)**
Other products	-	-	-	**(1,246)**
Administrative expenses	-	-	-	**(67,066)**
Depreciation and amortisation expense	-	-	-	**(6,539)**
Other income	-	-	-	**(5,574)**
Other expenses (unallocated)	-	-	-	-
Finance income/costs	-	-	-	**94,122**
Profit before tax	-	-	-	**40,519**
Income tax	-	-	-	**(4,676)**
Net profit	-	-	-	**35,843**
Carrying amount of debt portfolios	**13,395**	**30,390**	**3,148**	**46,934**

6. Revenue

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Revenue from debt purchase	53,099	56,678
Income from property	-2,390	-
Revenue from credit management	56,872	45,246
Revenue from other services	24,415	13,749
Revenue from sale of merchandise and materials	130	65
	132,126	115,739

Revenue from debt purchase

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Interest income adjusted for actual recoveries	33,970	34,988
Revaluation of debt portfolios	19,129	21,690
	53,099	56,678

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Revision of recovery forecast	17,913	21,333
Change due to change in discount rate	-43	88
Foreign currency gains	1,259	270
	19,129	21,691

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Interest income adjusted for actual recoveries	32,710	33,208
Revaluation of debt portfolios	19,025	21,547
Income from property	-2,390	-
	49,345	54,755

Revaluation of debt portfolios measured at fair value

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Revision of recovery forecast	17,888	21,211
Change due to change in discount rate	-43	88
Foreign currency gains	1,180	249
	19,025	21,548

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

The recovery forecast update is primarily based on an 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 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Interest income adjusted for actual recoveries	1,260	1,780
Revaluation of debt portfolios	104	143
	1,364	1,923

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Revision of recovery forecast	25	122
Foreign currency gains	79	21
	104	143

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.

Revenue from credit management

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main client among non-related entities accounts for 6.22% of revenue from credit management services, and among related entities – for 60.77% (2015: 3.81% and 54.71%, respectively).

7. Other income

PLN '000	***Note***	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Return of compensation for damage caused by motor vehicles		688	593
Other		256	201
Gain on sale of property, plant and equipment		214	15
Reversal of impairment losses on receivables	*28*	6	46
Re-billed costs of services and court fees		-	194
		1,164	1,049

8. Contracted services

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Transport services	(30)	(25)
Other rental	(59)	(27)
Repair and maintenance services	(113)	(190)
Marketing and management services	(156)	(71)
Packing services	(243)	(12)
Security	(385)	(297)
Recruitment services	(446)	(658)
Repair of vehicles	(535)	(366)
Printing services	(621)	(465)
Banking services	(928)	(799)
Communications services	(1,679)	(1,329)
Other auxiliary services	(2,518)	(2,491)
IT services	(2,946)	(1,792)
Consultancy services	(4,378)	(2,853)
Postal and courier services	(4,476)	(3,346)
Space rental and service charges	(5,950)	(5,710)
Credit management	(12,950)	(9,682)
	(38,413)	(30,114)

9. Other expenses

PLN '000	***Note***	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Accumulated amortisation of receivables		-	(3,592)
Property insurance		(116)	(182)
Non-competition		(154)	(126)
Re-billed costs of services		(265)	-
Entertainment expenses		(282)	(221)
Motor insurance		(594)	(658)
Losses from damage caused by motor vehicles		(748)	(591)
Impairment losses on receivables	*28*	(906)	(362)
Court fees		(1,075)	(1,639)
Other		(1,688)	(1,142)
Business trips		(1,854)	(1,494)
Advertising		(1,920)	(1,470)
Staff training		(2,759)	(2,471)
Raw materials and energy used		(6,393)	(5,094)
Taxes and charges		(13,813)	(7,673)
		(32,566)	(26,714)

10. Employee benefits expense

	Jan 1 2016- Dec 31 2016	**Jan 1 2015- Dec 31 2015**
Salaries and wages	(78,152)	(78,203)
Other social security contributions	(5,358)	(5,831)
Old-age and disability pension contributions (defined contribution plans)	(10 878)	(8,847)
Equity-settled cost of stock option plan	(7,702)	(13,333)
Contribution to the State Fund for the Disabled	(879)	(811)
	(102,969)	(107,024)

11. Finance income and costs

Recognised as profit or loss of current period

Finance income

PLN '000	***Note***	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Dividend income		116,016	195,288
Interest income on loans advanced and receivables		3,090	3,366
Interest income on bank deposits		165	75
Remeasurement of investments		15,925	-
Net foreign exchange gains		-	380
		135,196	199,109

Finance costs

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Interest expense on financial liabilities measured at amortised cost	(60,475)	(42,317)
Net foreign exchange gains	(6,619)	-
Remeasurement of investments	-	(62,670)
	(67,094)	(104,986)

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 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Total interest income on financial assets	3,255	3,441
Total interest expense on financial liabilities	(60,475)	(42,317)

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	*Note*	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Income tax (current expense)			
Income tax for period		(7,235)	(4,090)
Income tax (deferred expense)			
Origination/reversal of temporary differences	*19*	(6,881)	(586)
		(14,116)	(4,676)

Income tax disclosed in these financial statements includes income tax and withholding tax.

Reconciliation of effective tax rate

PLN '000	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Net profit for period	3,699	35,843
Income tax recognised in the income statement	(14,116)	(4,676)
Profit before tax for period (at applicable tax rate)	17,815	40,519
Tax calculated at the tax rate applicable in Poland	(3,385)	(7,699)
Effect of non-deductible expenses	(10,731)	(25,695)
Effect of tax-exempt income	-	28,718
	(14,116)	(4,676)

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

As at December 31st 2016
PLN '000

	Note	Dec 31 2016	Dec 31 2015
Assets			
Non-current assets			
Property, plant and equipment		21,019	14,027
Intangible assets		13,261	10,735
Investments in subsidiaries		1,940,043	1,283,073
Deferred tax asset		-	2,863
Total non-current assets		1,974,323	1,310,698
Current assets			
Inventories		188	232
Investments in debt portfolios and loans	*18*	162,976	94,725
Trade receivables from related entities		38,883	10,562
Trade receivables from other entities		3,301	3,029
Other receivables		15,292	15,107
Other assets		4,402	2,118
Cash and cash equivalents		162,935	5,206
Total current assets		387,978	130,979
Total assets		2,362,301	1,441,677
Equity and liabilities			
Equity			
Share capital		18,744	17,398
Share premium		288,326	64,382
Other capital reserves		76,658	68,957
Retained earnings		317,522	348,800
Total equity		701,251	499,537
Non-current liabilities			
Deferred tax liability		4,018	-
Non-current liabilities under borrowings and other debt instruments		1,328,100	667,661
Hedge derivatives		-	589
Total non-current liabilities		1,332,117	668,250
Current liabilities			
Current liabilities under borrowings and other debt instruments		266,527	222,257
Trade and other payables		39,152	26,095
Current tax liability		3,514	3,178
Employee benefit obligations		19,741	22,362
Total current liabilities		328,934	273,892
Total liabilities		1,661,052	942,140
Total equity and liabilities		2,361,301	1,441,677

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14. Property, plant and equipment

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value of property, plant and equipment						
Gross value as at Jan 1 2015	512	11,913	14,915	585	146	28,071
Purchase	38	2,268	2,672	50	-	5,028
Sale/ liquidation	-	(257)	(1,023)	-	(19)	(1,299)
Gross value as at Dec 31 2015	550	13,924	16,564	635	127	31,800

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value as at Jan 1 2016	550	13,924	16,564	635	127	31,800
Purchase	180	2,697	8,761	62	1,071	12,771
Sale/ liquidation	-	(344)	(1,805)	(6)	(58)	(2,213)
Gross value as at Dec 31 2016	730	16,277	23,520	691	1,140	42,358

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PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2015	(66)	(8,050)	(7,437)	(393)	-	(15,946)
Depreciation and amortisation expense	(14)	(1,645)	(1,370)	(49)	-	(3,078)
Decrease resulting from sale/ liquidation	-	238	1,013	-	-	1,251
Accumulated depreciation and impairment losses as at Dec 31 2014	(80)	(9,457)	(7,794)	(442)	-	(17,773)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Accumulated depreciation and impairment losses as at Jan 1 2016	(80)	(9,457)	(7,794)	(442)	-	(17,773)
Depreciation	(24)	(1,932)	(3,183)	(50)	-	(5,189)
Decrease resulting from sale/ liquidation	-	266	1,351	6	-	1,623
Accumulated depreciation and impairment losses as at Dec 31 2016	(104)	(11,123)	(9,626)	(486)	-	(21,339)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Net value						
As at January 1st 2015	446	3,863	7,478	192	146	12,125
As at December 31st 2015	470	4,467	8,770	193	127	14,027
As at January 1st 2016	470	4,467	8,770	193	127	14,027
As at December 31st 2016	626	5,154	13,894	205	1,140	21,019

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Property, plant and equipment under leases

Under finance lease agreements, the Company uses passenger cars and trucks whose carrying amount as at December 31st 2016 and December 31st 2015 was PLN 12,392 thousand and PLN 6,392 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 25).

Property, plant and equipment under construction

In 2016, the Company incurred costs related to the purchase of equipment not placed in service as at December 31st 2016. As at December 31st 2016 and December 31st 2015, the value of property, plant and equipment under construction was PLN 1,140 thousand and PLN 126 thousand, respectively.

15. Intangible assets

PLN '000

	Software, licences, permits	**Other**	**Total**
Gross value of intangible assets			
Gross value as at Jan 1 2015	20,025	369	20,394
Produced internally	3,779	-	3,779
Other increase	996	-	996
Decrease	(3,417)	-	(3,417)
Gross value as at Dec 31 2015	21,383	369	21,752
Gross value as at Jan 1 2016	21,383	369	21,752
Produced internally	4,772	-	4,772
Other increase	1,761	-	1,761
Decrease	(2,129)	-	(2,129)
Gross value as at Dec 31 2016	25,787	369	26,156
			-

PLN '000

	Software, licences, permits	**Other**	**Total**
Accumulated amortisation and impairment losses			
Accumulated amortisation and impairment losses as at Jan 1 2015	(10,386)	(369)	(10,755)
Amortisation	(3,460)	-	(3,460)
Decrease	3,198	-	3,198
Accumulated amortisation and impairment losses as at Dec 31 2014	(10,648)	(369)	(11,017)
Accumulated amortisation and impairment losses as at Jan 1 2016	(10,648)	(369)	(11,017)
Amortisation	(3,927)	-	(3,927)
Decrease	2,049	-	2,049
Accumulated amortisation and impairment losses as at Dec 31 2016	(12,526)	(369)	(12,895)

PLN '000

	Software, licences, permits	Other	Total
Net value			
As at January 1st 2015	9,639	-	9,639
As at December 31st 2015	10,735	-	10,735
As at January 1st 2016	10,735	-	10,735
As at December 31st 2016	13,261	-	13,261

16. Investments in subsidiaries

PLN '000	Dec 31 2016	Dec 31 2015
Other non-current investments		
Gross value of shares in subsidiaries	2,007,990	1,410,040
Impairment loss on shares	(67,947)	(126,968)
Net value of shares in subsidiaries	1,940,043	1,283,073

PLN '000	Country	Gross value of investment Dec 31 2016	Impairment loss
SeCapital S.à r.l. *	Luxembourg	662,045	-
ERIF Business Solutions Sp. z o.o.	Poland	100	-
SeCapital Polska Sp. z o.o.	Poland	50	(50)
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	3,104	-
Novum Finance Sp. z o.o.	Poland	2,100	-
KRUK Romania S.r.l	Romania	77,617	(18,596)
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	Poland	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	7,700	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	49,331	(49,278)
ProsperoCapital Sp. z o.o. (in liquidation)	Poland	28	(22)
			-
InvestCapital Malta Ltd *	Malta	1,066,565	-
RoCapital IFN S.A.*	Romania	13,888	-
Kruk Deustschland Gmbh	Germany	54,444	-
KRUK Italia S.r.l	Italy	4,686	-
ItaCapital S.r.l	Italy	435	-
KRUK Espana S.r.l	Spain	5,013	-
ProsperoCapital S.à r.l.	Luxembourg	538	-
Credit Base International S.r.l	Italy	10,352	-
Espand Soluciones de Gestion S.L.	Spain	49,694	-
		2,007,990	(67,947)

In 2016, KRUK tested its investment in each company for impairment. As a result, the impairment loss on the shares in KRUK Romania (PLN 59,021 thousand) was reversed.

PLN '000	Country	Shareholdings (%) Dec 31 2016	Dec 31 2015
SeCapital S.à r.l. *	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
SeCapital Polska Sp. z o.o.	Poland	100%	100%
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	100%	100%
InvestCapital Malta Ltd *	Malta	100%	100%
RoCapital IFN S.A.*	Romania	100%	100%
Kruk Deustschland Gmbh	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l.	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	-
Presco Investments I NS FIZ*	Poland	100%	-
Credit Base International S.r.l	Italy	100%	-
Elleffe Capital S.r.l.*	Italy	100%	-
Espand Soluciones de Gestion S.L.	Spain	100%	-

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2016 and for the period from January 1st to December 31st 2016.

In 2016, the Parent made additional contributions to equity in KRUK Deustchland Gmbh, a subsidiary, totalling PLN 38,139 thousand.

In 2016, the Parent made additional contributions to equity in KRUK Italy S.r.l, a subsidiary, totalling PLN 4,422 thousand.

In 2016, the Parent made additional contributions to equity in KRUK Espania S.r.l, a subsidiary, totalling PLN 4,800 thousand.

In 2016, the Parent reduced the share capital of its subsidiary Secapital S.a.r.l. by PLN 191,037 thousand.

In 2016, the Parent increased the share capital of its subsidiary Secapital S.a.r.l. by PLN 679,417 thousand.

On December 23rd 2015, KRUK S.A.'s subsidiary Secapital S.a r.l. entered into an investment agreement with Presco Investments Limited of Malta.
The Parties entered into the agreement in connection with a transaction to sell 100% of shares, free of any encumbrances, unlimited and free of any third-party rights, in Presco Investments S.a r.l., as well as of the right to debt portfolios purchased in Poland and held by the seller and P.R.E.S.C.O. Investment I NS FIZ, comprising two million cases with a total nominal value of PLN 2.7bn.

Pursuant to the agreement, the seller sold, and the buyer purchased, 390,050 shares with a total par value of PLN 39,005,000, for a price of PLN 193.7m. The shares confer the right to debt portfolios purchased in

Poland with a total nominal value of PLN 2.7bn. On April 15th 2016, Secapital S.a r.l., a subsidiary of KRUK S.A., and Presco Investments Limited of Malta signed a representation on fulfilment of the condition precedent and transfer of shares, as a result of which Secapital S.a r.l. became the owner of all shares in Presco Investments S.a.r.l. and acquired the right to the debt portfolios of P.R.E.S.C.O. Investment I NS FIZ.

P.R.E.S.C.O. Investment I NS FIZ is entered in the Register of Investment Funds maintained by the Regional Court in Warsaw, 7th Civil and Registry Division, under entry No. RFI 640. Since April 15th 2016, KRUK S.A.'s subsidiary SeCapital S.a.r.l. has been the sole holder of the Fund's investment certificates, holding 39,878,730 certificates.

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

The agreement was signed on December 23rd 2015 and control was taken over on April 15th 2016. The acquired companies were first included in the Group's consolidated financial statements as at the end of April 2016, in accordance with IAS 27.
Acquisition of the two companies was accounted for in accordance with IFRS 3. Both acquirees hold exclusively debt portfolios.

In the current legal framework, a company cannot sell debt portfolios without the buyer losing the right to pursue claims in legal cases that are already pending, therefore the KRUK Group entered into a transaction to acquire P.R.E.S.C.O. Investment I NS FIZ and Presco Investments S.a r.l. Owing to such transaction structure (that the Group was forced to use in view of the applicable laws), it was possible to ensure the continuity of operations of P.R.E.S.C.O. Investment I NS FIZ and Presco Investments S.a r.l. Prior to the transaction, both acquirees were 'cleared' of all other assets and liabilities. This confirms that the economic substance of the transaction was to purchase debt portfolios. In view of the economic substance of the transaction (purchase of debt portfolios), the KRUK Group recognised no goodwill on the acquisition. The difference between FV of the acquired portfolios as at the date of estimation of acquisition cost and FV as at the date of acquisition of control was taken in full to the statement of profit or loss.

On July 29th 2016, the Management Board of KRUK S.A., the sole shareholder of NOVUM FINANCE sp. z o.o., resolved to revoke the pending liquidation of that company. The relevant resolution was passed by the General Meeting. Ms Agnieszka Kułton was appointed member of the Company's Management Board.

On November 7th 2016, the Parent concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy, for acquisition of 100% of the shares in CBI. The agreement provides for the acquisition of 100% of the shares in CBI, free and clear of any encumbrances, restrictions or third-party rights. CBI's business involves the management of purchased debt portfolios and credit management services in Italy. Under the Agreement, KRUK S.A. will also acquire the entire share capital of Elleffe Capital S.r.l. of La Spezia, Italy (CBI's subsidiary), whose business activity includes investment in debt or debt-backed assets.
On December 20th 2016, the Parent concluded an agreement with the shareholders of Espand Soluciones de Gestion S.L. of Madrid, Spain, for acquisition of 100% of the shares in Espand. The agreement provides for the acquisition of 100% of the shares in Espand, free and clear of any encumbrances, restrictions or third-party rights. Espand's business involves the management of purchased debt portfolios and credit management services in Spain.

17. Investments

PLN '000	Dec 31 2016	Dec 31 2015
Investments		
Financial assets at fair value through profit or loss	41,211	44,431
Financial assets measured at amortised cost	2,077	2,502
Investment property	6,780	434
Loans advanced to related entities	112,908	25,343
Loans advanced to other entities	-	22,013
	162,976	94,725

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

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

On October 31st 2016, the Company sold its consumer loan portfolio to subsidiaries Novum Finance Sp. z o.o. and Presco NS FIZ. The main business reason for the transfer was the planned launch of consumer lending also to external clients, i.e. persons who have never been Kruk's clients. As of the date of the aforementioned agreement, cash loans have been advanced by Novum Finance Sp. z o.o.

For rules to be followed in valuation of purchased debt portfolios, see Note 3.2.1. Purchased debt portfolios are divided into the following main categories:

PLN '000	Dec 31 2016	Dec 31 2015
Purchased debt portfolios		
Unsecured portfolios	43,288	46,933
	43,288	46,933

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

		Dec 31 2016	Dec 31 2015
Discount rate			
	- risk-free	-0.1% - 2.15%	0.0663% - 1.99%
	- risk premium*	5.77% - 146.99%	7.92% - 151.4%
Period for which cash flows have been estimated		Jan 2016–Dec 2026	Jan 2016–Dec 2025
Nominal value of expected future cash flows		86,033	90,246

** applicable to 99% of debt portfolios*

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

PLN '000 **Period**	Dec 31 2016	Dec 31 2015
Less than 6 months	22,356	22,354
From 6 to 12 months	17,784	17,589
From 1 to 2 years	22,504	23,233
From 2 to 5 years	20,184	23,680
Over 5 years	3,205	3,390
	86,033	90,246

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	
Value of purchased debt portfolios as at Jan 1 2015	42,823
Purchase of debt portfolios	10
Cash recoveries	(52,578)
Revenue from debt purchase (interest and revaluation)	56 678
Value of purchased debt portfolios as at Dec 31 2015	46,933
Value of purchased debt portfolios as at Jan 1 2016	46,933
Cash recoveries	(56,744)
Revenue from debt purchase (interest and revaluation)	53 099
Value of purchased debt portfolios as at Dec 31 2016	43,288

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18. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Liabilities		Net value	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Property, plant and equipment	2,206	1,291	(2,431)	(1,520)	(225)	(229)
Intangible assets	-	-	(2,033)	(1,725)	(2,033)	(1,725)
Loans advanced to other entities	-	2,578	-	-	-	2,578
Trade and other receivables	-	-	(2,747)	(1,143)	(2,747)	(1,143)
Liabilities under borrowings and other debt instruments	1,428	-	-	-	1,428	-
Employee benefit obligations	2,634	3,146	-	-	2,634	3,146
Provisions and liabilities	697	236	(201)	-	497	236
Investments in debt portfolios	-	-	(3,571)	-	(3,571)	-
Deferred tax assets/liabilities	6,966	7,251	(10,983)	(4,388)	(4,018)	2,863
Deferred tax assets offset against liabilities	(6,966)	(4,388)	6,966	4,388	-	-
Deferred tax assets/liabilities in the statement of financial position	-	2,863	(4,018)	-	(4,018)	2,863

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Change in temporary differences in a period

PLN '000

	As at Jan 1 2015	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2015	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016
Property, plant and equipment	76	(305)	(229)	(229)	4	(225)
Intangible assets	(1,483)	(242)	(1,725)	(1,725)	(308)	(2,033)
Loans advanced to other entities	1,800	778	2,578	2,578	(2,578)	-
Trade and other receivables	(127)	(1,016)	(1,143)	(1,143)	(1,604)	(2,747)
Liabilities under borrowings and other debt instruments	-	-	-	-	1,428	1,428
Employee benefit obligations	2,809	337	3,146	3,146	(512)	2,634
Provisions and liabilities	347	(111)	236	236	261	497
Investments in debt portfolios	27	(27)	-	-	(3,571)	(3,571)
	3,449	(586)	2,863	2,863	(6,881)	(4,018)

The Company benefits from the regulation provided in IAS 12.39 and does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future.

19. Inventories

PLN '000	**Dec 31 2016**	**Dec 31 2015**
Materials	187	231
Prepaid deliveries	1	1
	188	232

In the reporting period ended December 31st 2016, the Company did not recognise any write-downs on inventories.

20. Trade and other receivables

PLN '000	**Dec 31 2016**	**Dec 31 2015**
Trade receivables from related entities	38,883	10,562
Trade receivables from non-related entities	3,301	3,029
	42,184	13,591

PLN '000	**Dec 31 2016**	**Dec 31 2015**
Other receivables from related entities	9,764	12,437
Other receivables from non-related entities	5,528	2,670
	15,292	15,107

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 2016**	**Dec 31 2015**
Cash in hand	7	24
Cash in current accounts	162,929	5,182
	162,936	5,206

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

'000	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Number of shares as at Jan 1	17,398	17,110
Issue of shares	1,346	288
Number of fully-paid shares at end of period	18,744	17,398

Company's shareholding structure as at December 31st 2016

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,919,841	1,920	10.24%
NN PTE (*)	1,992,000	1,992	10.63%
Aviva OFE	1,100,000	1,100	5.87%
Generali OFE	1,065,000	1,065	5.68%
Other members of the Management Board	245,105	245	1.31%
Other shareholders	12,422,270	12,422	66.27%
	18,744,216	18,744	100.00%

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

As at 31 December 2016. Registered share capital consisted of 17 744 thousand. ordinary shares (31.12.2015 .: 17 398 thousand.). The nominal value of one share amounted to 1 zł (31.12.2015 .: 1 zł).
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On 7 February 2017. District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register in Wrocław registered the increase of share capital through the issue of ordinary bearer shares of series G and the amendment of the Articles of the Company.
The share capital after the registration is 18 744 216 dollars. The share capital is divided into 18 744 216 shares with a nominal value of PLN 1 each.

On February 22nd 2016, the Management Board of the Warsaw Stock Exchange (Warsaw Stock Exchange, "WSE") adopted Resolution No. 165/2016 to admit and introduce to stock-exchange trading on the WSE Main Market Series E ordinary bearer shares in the Company ("Resolution"). In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1-2 of the WSE Rules, 117,398 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 38.3 of the WSE Rules, the WSE Management Board decided to introduce, under the ordinary procedure, the Company shares referred to above to trading on the main market as of February 25th 2016, provided that on that day the Central Securities Depository of Poland registers the shares and assign to them ISIN code No. PLKRK0000010.

On June 22nd 2016, the Management Board of the Warsaw Stock Exchange (Warsaw Stock Exchange, "WSE") adopted Resolution No. 644/2016 to admit and introduce to stock-exchange trading on the WSE Main Market Series E ordinary bearer shares in the Company ("Resolution"). In the Resolution, the WSE Management Board stated that, pursuant to Par. 19.1 and 19.2 of the WSE Rules, 228,470 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 38.3 of the WSE Rules, the WSE Management Board decided to introduce, under the ordinary procedure, the Company shares referred to above to trading on the main market as of June 27th 2017, provided that on that day the Central Securities Depository of Poland registers the shares and assigns them ISIN code No. PLKRK0000010.

On December 28th 2016, the Management Board of the Warsaw Stock Exchange ("WSE") adopted Resolution No. 1384/2016 to admit 1,000,000 allotment certificates to Series G ordinary bearer shares in the Company with a par value of PLN 1 per share (ISIN code: PLKRK0000499) to stock-exchange trading on the WSE Main Market.

Other capital reserves

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

Share-based payments

Incentive scheme for 2011-2014

Until June 30th 2016, the KRUK Group operated an incentive scheme for key management personnel of the Parent and Group companies, covering the years 2011–2014 ('Incentive Scheme' or 'Scheme').
The rules of the Incentive Scheme for 2011–2014 were adopted by way of Resolution No. 1/2011 of KRUK's Extraordinary General Meeting of March 30th 2011, and amended by a resolution of the Extraordinary General Meeting of August 29th 2011. Under the Scheme, eligible persons will have the right to acquire Company shares on preferential terms, set forth in the Resolution and in the Rules of the Incentive Scheme. The eligible persons are members of the Management Board (excluding the President), 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 acquire/subscribe for subscription warrants is made.
In connection with the Incentive Scheme, the Extraordinary General Meeting approved a conditional share capital increase of up to PLN 845,016 through an issue of up to 845,016 Series E ordinary bearer shares. The purpose 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 Incentive Scheme. Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series E Shares at an issue price equal to the issue price of Company shares in the initial public offering, i.e. PLN 39.70 per share, not earlier than six months after the subscription for the warrants and not later than on June 30th 2016.
Subscription warrants were issued in four tranches, one for each year of the reference period, i.e. for the financial years 2011–2015.
Subscription warrants for a given financial year were granted by the KRUK Supervisory Board on condition that two financial ratios reflecting the KRUK Group's consolidated results – EPS and EBITDA or ROE – reach predefined levels, according to the following criteria:

- Increase of EPS in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 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%;
- ROE in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 20%.

Tranche 1

Under Tranche 1, eligible persons, including Management Board Members, were offered subscription warrants pursuant to the Supervisory Board's resolution of July 20th 2012 on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2011, and determining the list of eligible persons under Tranche 1 for 2011 and the list of persons eligible under Tranche 1 for 2011 from the Reserve Pool.
On this basis, in 2012 eligible persons, including Management Board Members, subscribed for 189,790 warrants.
By June 30th 2016, 188,650 warrants were converted into Series E Company shares. The remaining 1,140 Tranche 1 warrants held by eligible persons expired on June 30th 2016.

Tranche 2

On August 5th 2013, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2012, and determining the list of eligible persons under Tranche 2 for 2012. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 2 for 2012 had been fulfilled, and determined the list of eligible persons in Tranche 2 for 2012 and the list of persons eligible in Tranche 2 for 2012 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2012 Management Stock Option Plan to the persons named in the lists, including Management Board Members. On October 1st 2013, 201,758 subscription warrants were delivered to the Eligible Persons.

By June 30th 2016, all subscription warrants issued in Tranche 2 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

Tranche 3

On June 12th 2014, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2013, and determining the list of eligible persons under Tranche 3 for 2013. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 3 for 2013 had been fulfilled, and determined the list of eligible persons in Tranche 3 for 2013 and the list of persons eligible in Tranche 3 for 2013 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2013 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 190,651 subscription warrants were delivered to the eligible persons on June 26th 2014.

By June 30th 2016, all subscription warrants issued in Tranche 3 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

Tranche 4

On July 3rd 2015, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2014, and determining the list of eligible persons under Tranche 4 for 2014. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 4 for 2014 had been fulfilled, and determined the list of eligible persons in Tranche 4 for the year.

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

By June 30th 2016, all subscription warrants issued in Tranche 4 were exchanged for Series E shares. The final option exercise date was June 30th 2016.

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Exercised warrants

				Number of exercised options				
2011–2016 Option Plan	**Number of options available under the Plan**	**Number of priced (offered) options**	**Number of issued options**	**Number of exercised options**	**in 2016**	**in 2015**	**in 2014**	**in 2013**
2011–2016 Option Plan	**845,016**	**918,798**	**845,016**	**851,076**				
base pool	**650,673**	**650,673**	**576,891**	**576,891**				
2011_tranche	162,690	162,690	161,057	161,057	**18,144**	**51,017**	**40,341**	**51,555**
2012_tranche	162,690	162,690	152,738	152,738	**18,631**	**57,641**	**76,466**	
2013_tranche	162,690	162,690	143,231	143,231	**22,283**	**120,948**		
2014_tranche	162,603	162,603	119,865	119,865	**119,865**			
reserve pools	**194,343**	**268,125**	**268,125**	**274,185**				
2011_tranche	48,564	28,733	28,733	34,793	**5,273**	**4,140**	**10,980**	**7,200**
2012_tranche	48,564	49,020	49,020	49,020	**10,140**	**15,080**	**23,800**	
2013_tranche	48,564	47,420	47,420	47,420	**8,580**	**38,840**		
2014_tranche	48,651	142,952	142,952	142,952	**142,952**			

On the option exercise date, the average share price was PLN 132.59.

Incentive scheme for 2015-2019

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") is addressed to the key management personnel of the Parent and Group companies.

Under the 2015−2019 Scheme, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution. 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.

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

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases by no less than 13.00%.
Under the Scheme, 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.
In its Resolution of September 8th 2014, the Supervisory Board determined and approved Rules for the Management Stock Option Scheme for 2015-2019.
On September 2nd 2014, the Management Board of KRUK S.A. determined the list of persons who are Members of the Company's Management Board and are eligible to participate in the 2015−2019 Stock Option Scheme (the "Base List of Management Board Members") and the list of persons who are not Members of the Company's Management Board but are eligible to participate in the 2015−2019 Stock Option Scheme (the "Base List of Non-Management Board Members").

Tranche 1

On June 9th 2016, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of a condition set forth in the Stock Option Scheme for offering Tranche 1 Subscription Warrants as a reward for meeting the targets set in the 2015−2019 incentive scheme in 2015.The Supervisory Board declared that the condition was met. On June 17th 2016, in the performance of the 2015−2019 Stock Option Scheme, the Company's Management Board passed a resolution to determine the list of Non-Management Board Members who are Eligible Persons under Tranche 1 Subscription Warrants for 2015.
Acting under the resolution, on June 22nd 2016, the Management Board invited the Eligible Persons who are not Management Board members to acquire Tranche 1 Subscription Warrants. As a result, 86,435 Subscription Warrants were issued to the Eligible Persons on July 1st 2016.

On August 27th 2016, the Company's Management Board passed a resolution to determine the list of Non-Management Board Members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 as part of the 2015−2019 Stock Option Scheme. In compliance with the Scheme terms, the resolution was approved by a Supervisory Board resolution of September 1st 2016.

On October 27th 2016, the Management Board passed a resolution to amend the list of Management Board Members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 under the 2015−2019 Stock Option Scheme. The resolution was approved by the Supervisory Board's resolution of October 27th 2016. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 Subscription Warrants under the 2015−2019 Stock Option Scheme. On October 27th 2016, 20,000 Subscription Warrants were delivered to the Eligible Persons who were Management Board members.

23. Earnings per share

Basic earnings per share

As at December 31st 2016, basic earnings per share were calculated based on net profit attributable to owners of the Company (holding ordinary shares) of PLN 3,699 thousand (2015: PLN 35,843 thousand) and the weighted average number of shares in the period covered by the financial statements of 17,995 thousand (2015: 17,243 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

PLN '000

	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Net profit for period	4,212	35,843
Net profit attributable to owners of the Company	4,212	35,843

Weighted average number of ordinary shares

'000	Jan 1 2016- Dec 31 2016	Jan 1 2015- Dec 31 2015
Number of ordinary shares as at Jan 1	17,398	17,110
Effect of cancellation and issue of shares	259	133
Weighted average number of ordinary shares in period ended Dec 31	17 657	17,243
PLN		
Earnings per share	0.24	2.08

Consolidated net profit attributable to owners of the Parent

As at December 31st 2016, basic consolidated earnings per share were calculated based on consolidated net profit attributable to owners of the Parent (holding ordinary shares) of PLN 248,663 thousand (2015: PLN 204,227 thousand) and the weighted average number of shares in the period covered by the financial statements of 17,995 thousand (2015: 17,243 thousand). The amounts were determined as follows:

Consolidated net profit attributable to owners of the Parent

PLN '000

	Jan 1 2016 - Dec 31 2016	**Jan 1 2015 - Dec 31 2015**
Net profit attributable to owners of the Parent (basic)	248,663	204,227
Net profit attributable to owners of the Parent (diluted)	248,663	204,227

Weighted average number of ordinary shares

'000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Number of ordinary shares as at Jan 1	17,398	17,110
Effect of retirement and issue	259	133
Weighted average number of ordinary shares in period ended Dec 31	17,657	17,243
PLN		
Earnings per share	14,08	11.84

Dividend per share paid

PLN '000	**Jan 1 2016 - Dec 31 2016**	**Jan 1 2015 - Dec 31 2015**
Dividend paid from profit	35,491	25,938
PLN		
Dividend per share	2.00	1.50

Diluted separate earnings per share

As at December 31st 2016, diluted earnings per share were calculated based on net profit attributable to owners of the Company (holding ordinary shares) of PLN 3,699 thousand and the weighted average number of shares in the period covered by the financial statements of 18,693 thousand. The amounts were determined as follows:

'000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Weighted average number of ordinary shares in period ended Dec 31	17,657	17,243
Effect of share option issue	698	550
Weighted average number of ordinary shares in period ended Dec 31 (diluted)	18,355	17,793
PLN		
Earnings per share	0.23	2.01

Diluted consolidated earnings per share

As at December 31st 2016, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 248,663 thousand and the weighted average number of shares in the period covered by the financial statements of 18,893 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	***Note***	**Dec 31 2016**	**Dec 31 2015**
Weighted average number of ordinary shares in period ended Dec 31	*23*	17,657	17,243
Effect of issue of unregistered shares not subscribed for		698	550
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		18,355	17,793
PLN			
Earnings per share (diluted)		13.55	11.48

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 2016	Dec 31 2015
Borrowings secured on the Company's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.0 pp; 1M EURIBOR + margin of 2.2–2.4 pp	2024	217,915	193,587
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–4.6 pp	2020	1,365,101	689,532
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.39–3.58 pp	2019	11,610	6,797
				1,594,625	889,915

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at December 31st 2015			
up to 1 year	3,231	122	3,110
from 1 to 5 years	3,828	140	3,688
	7,058	262	6,797
As at December 31st 2016			
up to 1 year	5,374	176	5,198
from 1 to 5 years	6,627	216	6,411
	12,001	392	11,610

Security over assets

Security over assets

PLN '000	Dec 31 2016	Dec 31 2015
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	498,520	456,672
Property, plant and equipment under finance leases	12,392	6,392
	510,912	463,064

25. Employee benefit obligations

PLN '000	Dec 31 2016	Dec 31 2015
Salaries and wages payable	5,037	4,566
Social benefit obligations	4,530	4,300
Personal income tax	1,283	1,186
Accrued holidays	3,800	3,470
Accrued salaries and wages (bonuses)	4,940	8,565
Accrued retirement severance payments	124	124
Special accounts	28	151
	19,742	22,363

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2015	2,944
Increase	3,327
Use	(2,801)
Value as at Dec 31 2015	3,470
Value as at Jan 1 2016	3,470
Increase	3,828
Use	(3,498)
Value as at Dec 31 2016	3,800

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2015	7,711
Increase	21,705
Use	(19,980)
Release	(871)
Value as at Dec 31 2015	8,565
Value as at Jan 1 2016	8,565
Increase	4,940
Use	(5,104)
Release	(3,461)
Value as at Dec 31 2016	4,940

26. Current provisions

Tax risk

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

The Company believes that it has paid all due taxes, fines and default interest in a timely manner and in appropriate amounts. In respect of all uncertain tax items, where the current legislation and communication with tax authorities do not provide sufficient guidance, the Company analysed the existing tax laws and regulations and their interpretations, and applied them correctly.

In Poland, tax settlements are subject to tax inspection for a period of five years.

On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). The purpose of GAAR is to prevent the establishment and use of artificial schemes set up to avoid payment of taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit, which in the given circumstances is contrary to the object and purpose of tax laws. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial. Any (i) unjustified dividing of transactions, (ii) engaging of intermediaries in spite of a lack of economic or business rationale for doing so, (iii) presence of elements that mutually cancel or set off each other, and (iv) any other measures having a similar effect, may be treated as an indication that an artificial scheme subject to the provisions of GAAR has been established. The new regulations will require considerably more judgement in assessing the tax effects of transactions.
GAAR applies to transactions made after its effective date as well as to transactions executed before the effective date of GAAR but in respect of which benefits were or continue to be derived after that date. The implementation of GAAR will allow Polish tax inspection authorities to challenge schemes and arrangements made by corporate taxpayers, such as restructuring or reorganisation of corporate groups.

27. Trade and other payables

Current liabilities *PLN '000*	**Dec 31 2016**	**Dec 31 2015**
Trade payables to related entities	14,196	14,751
Trade payables to other entities	11,001	3,811
Deferred income	6,131	4,368
Taxes, customs duties, insurance and other benefits payable	2,827	171
Accrued expenses	1,529	799
Other liabilities	3,469	2,194
	39,152	26,095

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 2016	Dec 31 2015
Financial instruments at fair value through profit or loss	*17*	41,211	44,431
Financial assets measured at amortised cost	*17*	2,077	2,502
Loans	*17*	112,908	47,357
Receivables	*20*	57,963	28,698
		213,158	123,423

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

PLN '000	Dec 31 2016	Dec 31 2015
Poland	99,596	27,691
Romania	105,255	54,157
Czech Republic and Slovakia	8,308	41,575
	213,158	123,423

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 2016	Impairment loss Dec 31 2016	Gross value Dec 31 2015	Impairment loss Dec 31 2015
Not due	37,798	-	13,693	-
Past due, 1-30 days	4,746	-	1,762	-
Past due, 31-90 days	9,504	-	1,886	-
Past due, 91-180 days	3,656	-	1,793	-
Past due, 181-365 days	1,555	906	2,480	925
Past due, over one year	3,059	1,936	9,026	1,017
	59,805	2,842	30,640	1,942

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Impairment loss as at Jan 1	1,942	1,626
Impairment loss recognised in period	906	3,949
Reversal of impairment loss	(6)	(3,587)
Use of impairment loss	-	(46)
Impairment loss as at Dec 31	2,842	1,942

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 2012−2016, the Company did not recognise any general impairment losses on receivables.

Liquidity risk

Below are presented the contractual terms of financial liabilities:

As at December 31st 2016
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	217,915	220,790	2,030	2,063	4,093	212,498	106
Unsecured bonds in issue	1,365,101	1,630,185	151,457	46,685	174,803	967,363	289,876
Finance lease liabilities	11,610	12,266	3,113	2,412	4,235	2,506	-
Trade and other payables	39,152	39,152	39,152	-	-	-	-
	1,633,778	1,902,394	195,753	51,161	183,131	1,182,367	289,982

As at December 31st 2015
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	193,587	225,171	3,859	2,390	4,740	74,320	139,863
Unsecured bonds in issue	689,532	807,635	102,082	88,552	159,494	250,395	207,111
Finance lease liabilities	6,797	6,880	1,485	1,685	2,569	1,141	-
Trade and other payables	26,095	26,095	26,095	-	-	-	-
	916,011	1,065,781	133,521	92,627	166,803	325,856	346,974

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2015 and December 31st 2016, 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 2016, the undrawn revolving credit facility limit available to the Company was PLN 295,024 thousand (2015: PLN 57,620 thousand). The undrawn limit is available until October 30th 2020.

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

'000	Dec 31 2016			Dec 31 2015		
	EUR	RON	CZK	EUR	RON	CZK
Trade receivables	160	3,271	5	95	-	6
Cash	83	10,221	831	119	276	1,524
Financial assets at fair value through profit or loss	650	30,377	2,552	531	30,390	2,617
Financial assets measured at amortised cost	-	1,905	-	-	2,502	-
Liabilities under borrowings and other debt instruments	(201,470)	(11,514)	-	(60,680)	-	-
Trade payables	(223)	(1,622)	(5)	(4,833)	(627)	(175)
Exposure to currency risk	(200,800)	32,638	3,383	(64,768)	32,541	3,972

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

PLN	**Average exchange rates**		**End of period (spot rates)**	
	Jan 1 2016- Dec 31 2016	**Jan 1 2015- Dec 31 2015**	**Dec 31 2016**	**Dec 31 2015**
EUR 1	4.3757	4.1848	4.4240	4.2615
USD 1	3.9680	3.7928	4.1793	3.9011
RON 1	0.9739	0.9421	0.9749	0.9421
CZK 1	0.1618	0.1534	0.1637	0.1577
HUF 100	1.4034	1.3529	1.4224	1.3601

As at December 31st 2016, appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an increase (decrease) of equity and profit before tax by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN '000	**Other comprehensive income**	**Profit or loss of current period**
Dec 31 2015		
EUR (10% appreciation of PLN)	-	6,477
RON (10% appreciation of PLN)	-	(3,254)
CZK (10% appreciation of PLN)	-	(397)
Dec 31 2016		
EUR (10% appreciation of PLN)	-	20,080
RON (10% appreciation of PLN)	-	(3,264)
CZK (10% appreciation of PLN)	-	(338)

Interest rate risk

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

PLN '000	**Carrying amount**	
	Dec 31 2016	**Dec 31 2015**
Fixed-rate financial instruments		
Financial assets	59,553	53,214
Financial liabilities	(138,839)	(26,059)
	(79,286)	27,155
Floating-rate financial instruments		
Financial assets	154,118	69,774
Financial liabilities	(1,494,939)	(889,916)
	(1,340,821)	(820,142)

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 material 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 current period**		**Equity excluding profit or loss of current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2015				
Floating-rate financial instruments	(33,584)	33,584	-	-
Dec 31 2016				
Floating-rate financial instruments	(54,771)	54,771	-	-

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 2016		Dec 31 2015	
	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	41,211	41,211	44,431	44,431
Hedge derivatives	-	-	(589)	(589)
	41,211	41,211	43,842	43,842
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	2,077	1,731	2,502	2,310
Investment property	6,780	6,780	434	434
Loans and receivables	112,908	112,908	47,357	47,357
Secured bank borrowings	(217,915)	(217,915)	(193,587)	(193,587)
Unsecured bonds in issue	(1,365,101)	(1,366,204)	(689,532)	(689,532)
Finance lease liabilities	(11,610)	(11,610)	(6,797)	(6,797)
Trade and other payables	(39,152)	(39,152)	(26,095)	(26,095)
	(1,512,013)	(1,513,462)	(865,718)	(865,910)

For information on the rules applied to the measurement of fair value, see Note 3.

Interest rates used for the assessment of fair value

	Dec 31 2016	Dec 31 2015
Financial assets at fair value and measured at amortised cost	5.77% - 146.99%	7.92% - 151.4%
Borrowings	1.83%-2.66%	2.00%-4.65%
Unsecured bonds in issue	4.23%-6.33%	4.50%-6.32%
Finance lease liabilities	1.39%-3.58%	1.39%-3.58%

Hierarchy of financial instruments measured at fair value

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

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

In 2014−2016, no transfers were made between the levels.

PLN '000	**Level 3**
As at Dec 31 2015	
Financial assets at fair value through profit or loss	44,431
Financial assets measured at amortised cost	2,310
As at Dec 31 2016	
Financial assets at fair value through profit or loss	41,211
Financial assets measured at amortised cost	2,310

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.

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 2016**	**Dec 31 2015**
up to 1 year	5,394	4,015
from 1 to 5 years	16,225	3,875
	21,619	7,890

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. After the initial term, the Agreement is now effective for indefinite time.

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 2016- Dec 31 2016**	**Jan 1 2015- Dec 31 2015**
Base pay/ managerial contract (gross)	2,023	4,345
Provisions for employee bonuses for current year	1,265	2,287
Other - medical services and other	83	87
Share based payments	7,702	13,333
	11,073	20,052

Other related-party transactions

As at December 31st 2016, the members of the management body and persons closely related to them jointly held 13% of the total voting right at the Company's General Meeting (December 31st 2015: 13%).

On January 5th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.

On April 4th 2016, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A., given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Krupa had sold 17,500 shares in KRUK S.A., at the average price of PLN 182.85 per share, in an ordinary session transaction executed on the Warsaw Stock Exchange on March 31st 2016, and 30,000 shares in KRUK S.A., at the average price of PLN 178 per share, in a block trade executed on the Warsaw Stock Exchange on April 1st 2016.

On July 15th, July 26th and September 30th 2016, the Company received notifications from Piotr Krupa, President of the KRUK S.A. Management Board and a major shareholder in the Company, concerning sale of KRUK S.A. shares in ordinary trades executed on the Warsaw Stock Exchange on July 13th 2016 (32,000 shares for an average price of PLN 209.00), July 25th 2016 (10,000 shares for an average price of PLN 205.90 per share), and September 29th 2016 (9,000 shares for an average price of PLN 245.72 per share).

Transactions with subsidiaries as at and for the period ended December 31st 2015

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

PLN '000	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
SeCapital S.à. r.l	205	-	-	-
ERIF Business Solutions Sp. z o.o.	-	4	-	-
Novum Finance Sp. z o.o.	433	42	-	-
SeCapital Polska Sp. z o.o.	-	1	50	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,171	4,551	1,000	8
KRUK Romania S.r.l	615	798	-	-
Rejestr Dłużników ERIF BIG S.A.	35	218	-	-
NSFIZ PROKURA	4,686	5,461	-	-
KRUK Česká a Slovenská republika s.r.o.	69	1,007	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	3,075	-	-
InvestCapital Malta Ltd.	-	33	15,712	877
KRUK Deutschland Gmbh	-	837	-	-
KRUK Deutschland (Branch)	-	71	-	-
Rocapital IFN S.A.	-	70	8,900	10
	7,214	16,168	25,662	896

Revenue from mutual transactions

PLN '000	Revenue from sale of financial assets	Revenue from sale of materials and services	Revenue from credit management	Interest and dividends
SeCapital S.à. r.l	-	-	1,462	44,762
ERIF Business Solutions Sp. z o.o.	-	73	-	143
Novum Finance Sp. z o.o.	-	42	6	-
SeCapital Polska Sp. z o.o.	-	16	-	1
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	1,113	-	1,724
KRUK Romania S.r.l	-	1,112	-	836
Rejestr Dłużników ERIF BIG S.A.	-	73	-	-
NSFIZ PROKURA	-	74	7,497	-
KRUK Česká a Slovenská republika s.r.o.	-	384	-	731
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	64	-	-
InvestCapital Malta Ltd.	-	33	-	150,447
KRUK Deutschland GmbH	-	545	-	-
KRUK Deutschland (Branch)	-	47	-	-
Rocapital IFN S.A.	-	70	-	10
Prospero Capital Sp. z o.o.	-	16	-	-
	-	3,662	8,965	198,654

Costs of mutual transactions

PLN '000	Purchase of services
ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	2,654
KRUK Romania S.r.l	6,786
Rejestr Dłużników ERIF BIG S.A.	351
KRUK Česká a Slovenská republika s.r.o.	252
	10,044

31. Share-based payments

PLN '000

Period ending	Value of benefits granted
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Total	36,658

32. Auditor's fees

PLN '000	**Dec 31 2016**	**Dec 31 2015**
Mandatory audit of full-year financial statements and review of half-year financial statements	1,085	481
Consultancy services	25	9
	1,110	490

33. Contingent liabilities

Following the execution of a revolving facility agreement between PROKURA NS FIZ, KRUK S.A. and mBank S.A. on July 2nd 2015 to establish security for the liabilities of Prokura NS FIZ under the agreement:

- On January 4th 2016, PROKURA NS FIZ and mBank S.A. concluded four agreements on a registered pledge over a set of rights. The pledges were entered in the pledge register. The registered pledges secure claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 33,151 thousand.
- On March 2nd 2016, PROKURA NS FIZ and mBank S.A. concluded an agreement on a registered pledge over a set of rights. On March 14th 2016, an application was filed with the court to enter the pledge in the pledge register. The registered pledge secures claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the amount of the pledged assets in KRUK S.A.'s accounting books was PLN 27,161 thousand.
- On July 6th 2016, PROKURA NS FIZ and mBank S.A. concluded two agreements on a registered pledge over a set of rights. The pledges were entered in the pledge register. The registered pledges secure claims up to a maximum amount of PLN 150,000 thousand. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 23,109 thousand.
- On July 6th 2016, KRUK S.A. and mBank S.A. signed Annex 1 to a surety agreement of July 2nd 2015, announced by the Company in Current Report No. 39/2015. Under the annex, the validity of the

surety provided by KRUK S.A. for up to PLN 150m in respect of obligations incurred by PROKURA NS FIZ towards mBank S.A. under a credit facility agreement was extended to July 1st 2024.

The set of rights is presented in Note 24.

On June 20th 2016, in connection with a non-revolving working capital facility agreement executed by its subsidiary PROKURA NS FIZ, KRUK S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw. In accordance with the surety agreement, KRUK S.A. guaranteed liabilities towards the Bank under the facility agreement, whether existing at the time of the surety execution or arising in the future, including in particular interest and costs of court and enforcement proceedings incurred by the Bank, and thus became a joint and several debtor in respect of those liabilities. The surety was issued for up to PLN 52,971,106.80. It will expire not later than on December 19th 2022.
On July 8th 2016, PROKURA NS FIZ entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. on a registered pledge over a set of rights. On July 14th 2016, an application was filed with the court to enter the pledge in the pledge register. As at December 31st 2016, the total amount of the pledged assets in KRUK S.A.'s accounting books was PLN 43,189 thousand.
In connection with a PLN 10.3m share capital cancellation completed on December 20th 2016 in InvestCapital Malta Ltd., on December 20th 2016 KRUK S.A. issued a corporate guarantee to InvestCapital Malta for up to PLN 10.3m. The guarantee expired on March 20th 2017 after the share cancellation was declared final.

34. Events subsequent to the reporting date

In 2017. Kruk SA He entered into with Bank Zachodni WBK SA two contracts currency interest rate swaps (CIRS). The contracts hedge foreign exchange risk and interest rate risk at the same time through the efficient conversion of the Company's debt incurred in PLN in EUR:

• contract signed on 9 January 2017. Protects the coupon depends on the variable rate WIBOR 3M for PLN 100 million nominal amount of the bonds. The Company is liable to pay a fixed interest rate of 3.06%, while BZ WBK is the payer of the variable interest rate WIBOR 3M plus a margin of 3.10%. Interest payments are made in 3-month interest periods. The settlement of the contract will involve the exchange of protected denomination and will take place on 4 June 2021, the date the Company receives from BZ WBK PLN 100 million, and will pay for BZ WBK 22.8 million.

• contract signed on 13 January 2017. Protects the coupon depends on the variable rate WIBOR 3M for PLN 90 million nominal amount of the bonds. The Company is liable to pay a fixed interest rate of 2.97%, while BZ WBK is the payer of the variable interest rate WIBOR 3M plus a margin of 3.00%. Interest payments are made in 3-month interest periods. The settlement of the contract will involve the exchange of protected denomination and will take place on 10 November 2021., The date the Company receives from BZ WBK PLN 90 million, and will pay for BZ WBK 20.6 million

Piotr Krupa
President of the Management Board

Agnieszka Kułton
Member of the Management Board

Urszula Okarma
Member of the Management Board

Iwona Słomska
Member of the Management Board

Michał Zasępa
Member of the Management Board

Katarzyna Raczkiewicz
Person responsible for maintaining the accounting records

Wrocław, February 27th 2017