KRUK S.A.
Separate financial statements
for the year ended December 31st 2017

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

KRUK S.A.
December 31st 2017

Separate financial statements

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Separate statement of profit or loss

For the year ended December 31st 2017
PLN '000

	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Revenue	*5*	142,722	132,126
Other income	*6*	2,085	1,164
		144,807	133,290
Employee benefits expense	*9*	(118,861)	(102,969)
Depreciation and amortisation	*13,14*	(11,684)	(9,115)
Services	7	(39,474)	(38,413)
Other expenses	*8*	(39,810)	(32,566)
		(209,829)	(183,063)
Operating loss		(65,022)	(49,774)
Finance income	*10*	361,532	135,196
Finance costs	*10*	(235,781)	(67,094)
Net finance income		125,752	68,102
Profit before tax		60,729	18,328
Income tax	*11*	(31,215)	(14,116)
Net profit for period		29,514	4,212
Earnings per share			
Basic (PLN)	*22*	1.57	0.24
Diluted (PLN)	*22*	1.54	0.23

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 2017
PLN '000

	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Net profit for period	**29,514**	**4,212**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	7,262	-
Income tax on other comprehensive income	(1,380)	-
Items that will not be reclassified subsequently to profit or loss	-	-
Income tax on other comprehensive income	-	-
Other comprehensive income for period, net	5,882	-
Total comprehensive income for period	35,396	4,212

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 financial position

As at December 31st 2017
PLN '000

		Note	Dec 31 2017	Dec 31 2016
Assets				
	Cash and cash equivalents	20	16,917	162,936
	Trade receivables from related entities	19	45,207	38,883
	Trade receivables from other entities	19	2,881	3,301
	Investments	16	172,297	162,976
	Other receivables	19	9,276	15,292
	Inventories	18	171	188
	Property, plant and equipment	13	19,062	21,019
	Intangible assets	14	15,183	13,261
	Hedge derivatives	24	8,637	-
	Investments in subsidiaries	15	2,849,889	1,940,043
	Other assets		4,133	4,402
Total assets			3,143,654	2,362,301
Equity and liabilities				
Liabilities				
	Hedge derivatives	24	1,375	-
	Trade and other payables	27	593,741	39,152
	Employee benefit obligations	25	17,673	19,742
	Income tax payable		14,401	3,514
	Liabilities under borrowings and other debt instruments	23	1,786,487	1,594,626
	Deferred tax liability	17	15,351	4,018
Total liabilities			2,429,028	1,661,051
Equity				
	Share capital	21	18,808	18,744
	Share premium		293,581	288,326
	Cash flow hedging reserve		5,882	-
	Other capital reserves		86,806	76,659
	Retained earnings		309,548	317,522
Total equity			714,625	701,251
Total equity and liabilities			3,143,654	2,362,301

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 changes in equity

For the year ended December 31st 2017
PLN '000

	Note	Share capital	Share premium	Cash flow hedging reserve	Other capital reserves	Retained earnings	**Total equity**
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	4,212
Total other comprehensive income		-	-	-	-	-	-
Total comprehensive income for period		-	-	-	-	4,212	4,212
Contributions from and distributions to owners							
- Payment of dividends						(35,491)	(35,491)
- Share-based payments		-	-	-	7,702	-	7,702
- Issue of shares		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	317,522	701,251
Equity as at Jan 1 2017		18,744	288,326	-	76,659	317,522	701 251
Comprehensive income for period							
Net profit for period		-	-	-	-	29,514	29,514
Other comprehensive income							
- Valuation of hedging instruments		-	-	5,882	-	-	5,882
- Valuation of a contribution in kind (shares)		-	-	-	-	-	-
Total comprehensive income for period		-	-	5,882	-	29,514	35,396
Contributions from and distributions to owners							
- Payment of dividends	*22*	-	-	-	-	(37,488)	(37,488)
- Share-based payments	*31*	-	-	-	10,147	-	10,147
- Issue of shares	*21*	64	5,255	-	-	-	5,319
Total contributions from and distributions to owners		64	5,255	-	10,147	(37,488)	(22,022)
Total equity as at Dec 31 2017		18,808	293,581	5,882	86,806	309,548	714,625

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 2017
PLN '000

	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Cash flows from operating activities			
Net profit for period		29,514	4,212
Adjustments			
Depreciation of property, plant and equipment	*13*	7,252	5,187
Amortisation of intangible assets	*14*	4,430	3,926
Net finance income		(138,942)	(70,272)
Gain on sale of property, plant and equipment		(801)	(214)
Equity-settled share-based payments	*31*	10,147	7,701
Income tax		31,215	14,116
Change in other investments		-	22,013
Change in debt portfolios purchased	*16*	(8,030)	(2,700)
Change in inventories		16	44
Change in trade and other receivables		156,722	(50,630)
Change in other assets		268	(2,284)
Change in trade and other payables		561,279	10,384
Change in employee benefit obligations		(2,069)	(2,621)
Income tax paid		(11,039)	(4,738)
Net cash from operating activities		639,962	(65,875)
Cash flows from investing activities			
Interest received		164	165
Loans advanced		(61,366)	(169,268)
Sale of intangible assets and property, plant and equipment		2,914	825
Dividends received		46,595	116,303
Proceeds from cancellation of shares in subsidiaries		190,723	329,678
Purchase of intangible assets and property, plant and equipment		(10,700)	(10,372)
Acquisition of shares in subsidiaries		(1,120,290)	(927,575)
Repayment of loans advanced		72,185	65,513
Net cash from investing activities		(879,774)	(594,732)
Cash flows from financing activities			
Net proceeds from issue of shares		5,318	225,290
Proceeds from issue of debt securities		168,391	832,868
Increase in borrowings		991,884	1,282,192
Repayment of borrowings		(821,532)	(1,262,008)
Redemption of debt securities		(135,000)	(154,000)
Payments under finance lease contracts		(5,811)	(4,279)
Dividends paid	*22*	(37,488)	(35,491)
Interest paid		(71,968)	(66,235)
Net cash from financing activities		93,794	818,337
Total net cash flows		(146,019)	157,730
Cash and cash equivalents at beginning of period		162,936	5,206
Cash and cash equivalents at end of period	*20*	16,917	162,936

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

Accounting policies and notes to the separate financial statements

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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, 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 2017 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 2017 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. Basis of preparation

2.1. Statement of compliance

These separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on March 19th 2018.

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards 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 valuation

These financial statements have been prepared for the reporting period from January 1st 2017 to December 31st 2017. The comparative data is presented as at December 31st 2016 and for the period from January 1st 2016 to December 31st 2016.
The consolidated financial statements have been prepared on the historical cost basis, save for financial instruments measured at fair value through profit or loss (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**
	2017 ***(PLN '000)***	**2016** ***(PLN '000)***		
Investments in subsidiaries	2,849,889	1,940,043	15	Investments in subsidiaries are valued at the purchase price adjusted for impairment losses. The company carried out a test for the impairment of investments in subsidiaries for which they have been identified indications of impairment. As a part of above tests, the Company made estimation of recoverable amount of investment in subsidiaries based on value in use corresponding with the centres generating cash using the discounted cash flow model. The valuation of investments in subsidiaries is based on many assumptions and estimates, especially regarding the amount of future cash flows and the level of discount rate. Forecasted cash flows of subsidiaries involved in servicing debt portfolios depend primarily on the assumptions connected with the amount of remuneration for services of debt collection and collection costs. Rationality of the assumptions adopted in this area are exposed to significant risk due to high uncertainty related to the effectiveness of the future debt collection activities.

Item	Amount estimated		Note No.	Assumptions and estimate calculation
	2017 *(PLN '000)*	2016 *(PLN '000)*		
Investments	172,297	162,976	3.6,16	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 were 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 of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. KRUK S.A. prepares projections of recoveries from debt portfolios separately for individual markets. The projections account for, among other things, historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy. KRUK S.A. regularly reviews its debt collection costs to ensure that they are equal to the costs prevailing on the market. These costs affect the measurement of debt portfolios, and their changes are charged to profit or loss for the year.
Deferred tax liabilities	15,351	4,018	3.15,17	As the Company is able to control the origination and reversal of temporary differences, it recognises deferred tax liabilities at amounts of income tax expected to be paid in the future (three years) 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.

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. As of January 1st 2014, all purchased debt portfolios were classified as loans and receivables to better reflect the portfolio management strategy which, as of that date, focuses on maximising recoveries.

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.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value at the end of the reporting period, 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. A financial asset may be designated as a financial asset at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or (ii) the asset is part of a group of financial assets that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the asset contains embedded derivatives which should be presented separately.

Purchased debt portfolios

Debt portfolios purchased before January 1st 2014 are initially recognised at cost, 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.

The fair value of purchased debt portfolios 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 risk premium for a given portfolio remains unchanged.

The estimated cash flows are primarily based on:

- expected recovery rates from the collection tools used,
- the 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.

In the case of portfolios purchased on new markets, where the Company has a short, or no, history of separate output data, cash flows are estimated using operational information collected so far on those markets, supplemented with data and observations from the markets on which the Company has gained experience and collected historical data with respect to future cash flows.

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 the carrying amount of the debt portfolios, while 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 (but only with regard to the risk-free rate) are disclosed as revenue earned in a given period. These amounts are disclosed as operating income as 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 actual and forecast recoveries are presented as revenue and recognised under interest income adjusted for actual recoveries.

For the purpose of analyses and recovery projections, retail debt portfolios are grouped. Recovery projections are prepared for separate projection groups rather than for individual portfolios. There are three levels of grouping, based on the following criteria:
1st level of grouping – the country where a debt portfolio was purchased
2nd level of grouping – the measurement method applied
3rd level of grouping – the debt portfolio purchase date.
The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Company. Portfolio groups are made of portfolios that are at similar recovery phases. The Company has introduced the following breakdown mechanism for this level of grouping:

- the projection prepared for each projection group is ultimately broken down within the groups into individual debt portfolios using keys based on historical data,

- neither mortgage-backed nor secured corporate debt portfolios are grouped. Recovery projections are prepared for each portfolio separately.

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 from the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

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

Purchased debt portfolios

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on purchase date at acquisition price plus transaction costs.

The effective interest rate, equal to the internal rate of return, 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 discussed above, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. Actual cash flows received from collections during the period are recognised as a decrease in the portfolio value.

The value of an asset at the end of the reporting period 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 at the end of the reporting period is equal to the discounted value of expected cash flows.

Moreover, changes in portfolio 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.

For the purpose of analyses and recovery projections, retail debt portfolios are grouped. Recovery projections are prepared for separate projection groups rather than for individual portfolios. There are three levels of grouping, based on the following criteria:

1st level of grouping – the country where a debt portfolio was purchased

2nd level of grouping – the measurement method applied

3rd level of grouping – the debt portfolio purchase date.

The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Company. Portfolio groups are made of portfolios that are at similar recovery phases. The Company has introduced the following breakdown mechanism for this level of grouping:

- the projection prepared for each projection group is ultimately broken down within the groups into individual debt portfolios using keys based on historical data,
- neither mortgage-backed nor secured corporate debt portfolios are grouped. Recovery projections are prepared for each portfolio separately.

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

Application of hedge accounting

The condition for the application of hedge accounting by the Company is the fulfilment of all requirements listed below:

- at the moment of designating the hedging relationship there is a formal documentation containing a description of hedging relationship, the purpose of risk management, the strategy of establishing the collateral, identification of hedging instrument, position or hedged transaction, the character of hedged risk and the method of assessment of effectiveness of hedging relationship,
- the collateral will be highly effective in offsetting cash flows connected with hedged risk in accordance with the documentation regarding hedging relationship,
- the future transaction which accounts for the subject of collateral is highly probable and is exposed to risk of changes in cash flows that will affect the income statement,
- the effectiveness of collateral for hedged risk can be reliably assessed on the basis of valuation of cash flows related to the hedged item,
- the assessment of effectiveness of hedging relationship is made for each reporting period, no less than once per quarter.

Discontinuing of hedge accounting

In the cases listed below, the Company ceases to apply hedge accounting:

- the hedging relationship no longer meets the criteria for hedge accounting. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in separate position in revaluation reserve and are accounted for period of time in which the hedged item goes to income statement,
- the hedged instrument expires, is sold, terminated or settled. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in separate position in revaluation reserve and are accounted for period of time in which the hedged item goes to income statement,
- the implementation of the planned transaction does not seem to be highly probable. In this case cumulative gains or losses related to the hedging instrument referred directly to revaluation reserve during period in which the hedge was effective, are recognized in income statement.

Cash flow hedge

Protection against variability of cash flows due to the type of identified risk associated with recognized asset or liability or with a highly probable future transaction which could affect the income statement, accounts for hedging of cash flows.

Changes in the fair value of the derivative hedging instrument designated as a hedging of cash flows are recognized directly in other comprehensive income in the part constituting effective part of hedging. The ineffective part of hedge is recognized in income statement. In addition, the amounts charged directly to the revaluation reserve are transferred to the income statement in the same period or periods in which the effect of hedged transaction is referred to income statement.

The effectiveness of hedging is verified through the usage of prospective and retrospective effectiveness tests. Tests are carried out on a quarterly basis.

3.2.4. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Company's Articles of Association and registered with the National Court Register. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

Share premium account is created in the amount of the difference between the issue price and the nominal value of issued shares.

Capital reserve is created from retained earnings in accordance with the objective set out in a resolution.

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 the difference between the disposal proceeds and the carrying amount of the disposed item, and is recognised in current period's profit or loss under other income or other expenses.

3.3.2. Subsequent expenditure

Subsequent expenditure on items of property, plant and equipment is capitalised if such expenditure may be reliably estimated and the Company is likely to derive economic benefits from such assets. 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. Amortisation

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 selected 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 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 an 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 sale proceeds 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 development work for the Group's 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. Amortisation

The amount of amortisation charges is determined based on acquisition or production cost of an asset, less its 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
Development expense	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 the rules followed in the valuation of such portfolios, see Note 3.2.1),
- Debt portfolios measured at amortised cost (for rules followed in the valuation of such portfolios, see Sections 3.2.1 and 3.8.1,

- Investment property (for the rules followed in the valuation of investment property, see Note 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. Aktywa finansowe

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, objective criteria indicating the occurrence of an event which might have a reliably estimated negative effect on projected cash flows related to that asset, have been met.

Such objective criteria of impairment of receivables and loans advanced 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.

When assessing the impairment of debt portfolios, the Company uses historical trends in the payments made and transactions in portfolios, taking into account the anticipated future performance.

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 or cash-generating units. The recoverable amount of goodwill, investment property, intangible assets with infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year.

In the case of investments in subsidiaries, the occurrence of losses in a given subsidiary or a significant impairment in assets are considered as objective evidence of impairment.

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 rate which reflects current market assessments of the time value of money and the risks specific to the asset. For

impairment testing, assets are grouped up to the smallest distinguishable units which generate cash largely independently from other assets or units of assets.
The Company tests the recognised goodwill for impairment by grouping cash-generating units so that the organisational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organisational level at which the Company monitors goodwill for its own purposes.
For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination.

The Company estimates the impairment of shares in subsidiaries in relation to cash flows generated by individual subsidiaries.

The creation and release of impairment losses on investments in subsidiaries are recognized in the income statement in the position of revaluation of investment in subsidiaries.

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 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 management stock option plans are described in Note 21.

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. Investments in subsidiaries

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

The principles for calculating impairment losses on investments in subsidiaries are described in Note 3.8.2.

Any shares transferred to the Company as a contribution in kind are valued based on the fair value of individual assets of the acquiree.

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 defined percentage of collected amounts.

Revenue from debt purchase

Revenue from debt portfolios measured at fair value

Estimated cash flows from debt portfolios are divided into principal recoveries and interest determined at the discount rate. Recovered principal is recognised as a reduction of the carrying amount of the debt portfolios, while 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 as the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.

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

Revenue from debt portfolios measured at amortised cost

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

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. 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 sale 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. Sale of other services

Revenue from sale 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 sale of other services also 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 using tax rates that are expected to apply 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.

Deferred tax assets are recognised in respect of tax loss carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realised. 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 2017 and 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 or after January 1st 2018:

Standards and Interpretations endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
IFRS 15 *Revenue from Contracts with Customers*	This standard contains rules which will replace most of the detailed guidelines for recognising revenue currently prescribed by the IFRS. In particular, following the adoption of the new standard, the provisions of IAS 18 *Revenue,* IAS 11 *Construction Contracts* and the related Interpretations will no longer apply. According to the new Standard, a five-step model will be used to determine the moment of revenue recognition and its amount. Under the model, revenue should be recognised when (or to the extent that) the entity transfers control of goods or services to a customer, and in the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised either: - over time, reflecting the contract performance by the Group, or	The Company does not expect the Standard to have a significant effect on its separate financial statements.	January 1st 2018

	- on a one-off basis at a point in time when control of goods or services is transferred to the customer. The standard contains new requirements for disclosures, both quantitative and qualitative, designed to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.		
IFRS 9 *Financial Instruments (2014)*	The new Standard replaces the guidance contained in IAS 39 *Financial Instruments: Recognition and Measurement* regarding classification and measurement of financial assets, including their impairment. IFRS 9 also eliminates the existing IAS 39 categories of financial assets held to maturity, available for sale, and loans and receivables. In accordance with the new standard, financial assets should be classified at initial recognition into one of three categories: • financial assets measured at amortised cost; • financial assets at fair value through profit or loss; or • financial assets at fair value through other comprehensive income. After initial recognition a financial asset is measured at amortised cost if the following two conditions are met: • the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and • its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. If the above requirements are not met (as, for instance, in the	It is expected that at the time of initial application, the new Standard will have a significant effect on the financial statements. A description of the changes is presented in Note 3.1.1.	January 1st 2018

	case of equity instruments of other entities), the financial asset is measured at fair value. Gains and losses on remeasurement of financial assets at fair value are recognised in profit or loss, except for assets held within a business model whose objective is to hold assets in order to collect contractual cash flows or sell them, in which case the gains and losses on remeasurement are disclosed in other comprehensive income. Furthermore, if an investment in an equity instrument is not held for trading, IFRS 9 allows the entity to make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. The election can be made on an instrument-by-instrument basis. No amount recognised in other comprehensive income in connection with such measurement may be reclassified to profit or loss of the current period at a later date. The standard retains almost all of the existing requirements of IAS 39 on classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as measured at fair value through profit or loss be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss or if the financial liability relates to a loan commitment or a financial guarantee contract, then the whole fair value change is presented in profit or loss. As regards measurement of impairment of financial assets, IFRS 9 replaces the old "incurred loss" model introduced by IAS 39		

	with the concept of "expected loss", which means that the event resulting in a loss does not have to precede its identification and recognition of impairment. The new rules are designed to prevent situations in which impairment on credit losses is recognised too late or its amount is insufficient. In short, the expected loss model provides for two measurement approaches, whereby the amount of loss can be determined in reference to: • 12-month expected credit losses; or • life-time expected loss. The choice of the approach depends on whether the credit risk associated with an asset has increased significantly since its initial recognition. If the credit risk related to financial assets has not increased significantly since initial recognition, the impairment loss on those financial assets is measured at an amount equal to the 12-month expected credit losses. However, if the credit risk has increased materially, the impairment loss is equal to the lifetime expected loss and thus increases the amount of recognised impairment loss. The standard further introduces a rebuttable presumption that a delay in contractual payments exceeding 30 days is sufficient grounds for the recognition of credit loss.		
Amendments to IFRS 15 *Revenue from Contracts with Customers*	Amendments to IFRS 15 clarify some of the requirements imposed by the Standard and include a number of simplifications regarding the transition period for entities adopting the new Standard. The amendments clarify how companies should: • identify a performance obligation (the promise to transfer a	The Company does not expect the amendments to have a significant effect on its financial statements.	January 1st 2018

	good or a service) in a contract; • determine whether a company is a principal (the provider of a good or service) or an agent responsible for arranging for the good or service to be provided; and • determine whether the revenue from granting a licence should be recognised at a point in time or over time. The amendments also include two additional simplifications designed to help companies apply the Standard for the first time and reduce related costs.		
Amendments to IFRS 4 *Insurance Contracts*	The amendments provide for two optional solutions: the overlay approach and the deferral approach, in order to ease the impact of the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming insurance contracts standard. The different effective dates of these regulations may give rise to temporary volatility in profit or loss and accounting mismatches. The amendments will provide: • companies issuing insurance contracts – with an option to recognise the volatility of profit or loss resulting from the application of IFRS 9 in other comprehensive income until the new insurance contracts standard comes into force; and • companies whose activities are predominantly connected with insurance – with an optional temporary exemption from IFRS 9 until 2021. Companies which will defer the adoption of IFRS 9 will continue to apply IAS 39 *Financial Instruments*.	The Company does not expect the amendments to have a significant effect on its financial statements.	January 1st 2018
IFRS 16 *Leases*	IFRS 16 supersedes IAS 17 *Leases* and related interpretations. For lessees, the new Standard eliminates the existing distinction between finance and operating leases. Recognising an operating	The new standard is being analysed, but the Company does not expect it to have a	January 1st 2019

	lease in the statement of financial position will result in the recognition of a new asset, i.e. the right to use the leased asset, and a new liability, i.e. the obligation to make lease payments. Right-of-use assets will be depreciated, while interest will accrue on liabilities. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments. Lessors will continue to classify leases as either operating or finance and thus recognise most leases without any changes.	significant effect on its financial statements.	

3.1.1. Impact of IFRS 9 on the separate financial statements of KRUK S.A.

The Company intends to adopt the new IFRS 9 as of its effective date. The effect of application of the classification, measurement and impairment principles determined in accordance with the requirements of the new Standard is recognised by the Company as an adjustment to the opening balance as at January 1st 2018, without adjusting the comparative periods. In 2017, the Company completed an assessment of the impact which the adoption of the standard would have in all the three areas.

(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 Company assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value will be measured at amortised cost as of January 1st 2018, as the business model test confirmed the validity of this method. The impact of this change on the value of investments and profit or loss brought forward is positive and amounts to PLN 2,122 thousand.

(b) Impairment
IFRS 9 requires recognising 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 measured at amortised cost are adjusted for the effect of future expected credit losses. As the Company purchases materially impaired debt portfolios, the effect of the impairment is already included in the purchase price.

The Company recognised higher impairment losses on trade and other receivables in the opening balance of 2018 to reflect the additional expected impairment of these assets in accordance with the new standard. These additional impairment losses are estimated at PLN 388 thousand.

(c) Hedge accounting
The Company has assessed that the hedging contracts it entered into in the past still qualify for hedge accounting under IFRS 9 and have no effect on profits for past years.

The Company has not identified any other items whose classification or measurement would change as a result of the adoption of IFRS 9.

The impact of amended IFRS 9 on individual items of the statement of financial position is presented below:

As at December 31st 2017

PLN '000

	Jan 1 2018	Impact of IFRS 9	Dec 31 2017
Assets			
Cash and cash equivalents	16,917	-	16,917
Trade receivables from related entities	44,819	(388)	45,207
Trade receivables from other entities	2,881	-	2,881
Investments	174,419	2,122	172,297
Other receivables	9,276	-	9,276
Inventories	171	-	171
Property, plant and equipment	19,062	-	19,062
Intangible assets	15,183	-	15,183
Investments in subsidiaries	2,849,889	-	2,849,889
Hedge derivatives	8,636	-	8,636
Other assets	4,133	-	4,133
	3,145,388	1,734	3,143,654
Equity and liabilities			
Liabilities			
Hedge derivatives	1,375	-	1,375
Trade and other payables	593,741	-	593,741
Employee benefit obligations	17,673	-	17,673
Income tax payable	14,401	-	14,401
Liabilities under borrowings and other debt instruments	1,786,487	-	1,786,487
Deferred tax liability	15,351	-	15,351
Total liabilities	2,429,028	-	2,429,028
Equity			
Share capital	18,808	-	18,808
Share premium	293,581	-	293,581
Cash flow hedging reserve	5,882	-	5,882
Other capital reserves	86,806	-	86,806
Retained earnings	311,282	1,734	309,548
Total equity	716,359	1,734	714,625
Total equity and liabilities	3,145,388	1,734	3,143,654

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

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
IFRS 14 *Regulatory Deferral Accounts*	This interim standard: • permits an entity which is a first-time adopter of IFRS to continue to account for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements; • requires that regulatory deferral account balances and movements in them be presented separately in the financial statements; and • requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation giving rise to the recognition of regulatory assets and liabilities under the interim standard.	This interim standard is not expected to have a significant impact on the Company's separate financial statements as it applies exclusively to first-time adopters of IFRSs.	January 1st 2016 *(The European Commission has decided not to endorse this interim standard in anticipation of the final standard)*
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 regarding the loss of control over a subsidiary contributed to an associate or joint venture. While IAS 28 limits the gain or loss resulting from the contribution of non-monetary assets to an associate or joint venture to the level of unrelated investors' interests in the associate or joint venture, IFRS 10 requires full recognition of the gain or loss from the loss of control over a subsidiary. The amendments require that the gain or loss be recognised in full where the contributed assets satisfy the definition of a business within	The Company is examining the impact of new standard on its separate financial statements.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
	the meaning of IFRS 3 *Business Combinations* (irrespective of whether such business has the form of a subsidiary or not). Partial recognition of the gain or loss (to the extent of unrelated investors' interests) applies where a transaction involves assets which do not constitute a business, even if the assets were held by a subsidiary.		
Amendments to IFRS 2 *Share-based Payment*	The amendments, which clarify the recognition of certain share-based payment transactions, lay down requirements for accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle	The Annual Improvements to IFRS Standards 2014–2016 Cycle contain three amendments, which: • delete short-term exemptions for first-time adopters of IFRS (IFRS 1 First-time Adoption of International Financial Reporting Standards), including the interim requirements of IFRS 7 *Financial Instruments: Disclosures* on qualitative and quantitative disclosures and transfers of financial assets, and	These amendments are not expected to have a significant impact on the Company's separate financial statements.	January 1st 2018 (with the exception of amendments to IFRS 12, which apply to annual periods beginning on or after January 1st 2017)

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Standards and Interpretations not yet endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
	IAS 19 *Employee Benefits*; • clarify that the requirements of IFRS 12 *Disclosure of Interests in Other Entities* (except for disclosures of summarized financial information in accordance with paragraphs B10–B16 of the standard) also apply to an entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and • clarify that the election not to apply the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* should be made separately for each associate or joint venture and also specify when such election must be made.		
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 22 clarifies which exchange rate to use for reporting transactions that involve advance consideration paid or received in a foreign currency (such as income transactions), and explains that the date of the transaction is the date of initial recognition of prepayments or deferred income arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, a date of the transaction must be determined for each payment or receipt of advance consideration.	The Company does not expect IFRIC 22 to have a significant impact on its separate financial statements.	January 1st 2018
Amendments to IAS 40 *Investment Property*	The amendments provide the following guidance on transfers of property to, or from, investment property: • transfers of property to, or from, investment property should only be made when there is a change in use; and	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2018

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
	• a change in use should be accompanied by an assessment of whether the property can be classified as an investment property.		
IFRS 17 *Insurance Contracts*	IFRS 17, which is to replace interim IFRS 4 *Insurance Contracts*, lays down recognition, measurement, presentation and disclosure principles for insurance contracts within the scope of the standard. In contrast to IFRS 4, which largely permits insurance contracts to continue to be accounted for in accordance with GAAP based on local regulations, IFRS 17 establishes a new comprehensive model (general measurement model) which combines the current recognition of technical provisions in the statement of financial position with the recognition of profit in the period in which the insurance coverage is provided and also: - is based on the concept of fulfilling contract obligations and applies current assumptions; - establishes a single revenue recognition principle to reflect the service provided; - can be modified for some contracts.	The Company does not expect the Standard to have a significant effect on its separate financial statements.	January 1st 2021
IFRIC 23 *Uncertainty over Income Tax Treatments*	IFRIC 23 provides guidance on income tax treatment where the applied treatment has not yet been accepted by the relevant tax authorities and is intended to enhance clarity. From the IFRIC 23 perspective, the key issue is assessing the probability of a tax treatment being accepted by the relevant tax authorities. If it is concluded that it is probable that a particular uncertain tax treatment will be accepted by the relevant tax authorities, the tax should be recognised in the financial statements consistently with the relevant income tax filings without	The Company is examining the impact of IFRIC 23 on its separate financial statements.	January 1st 2019

Standards and Interpretations not yet endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
	reflecting the uncertainty over current and deferred tax treatment. Otherwise, taxable profit (tax loss), tax bases and unused tax losses should be recognised using the most likely amount method or the expected value method (sum of probability-weighed possible solutions), depending on which provides better predictions of the resolution of the uncertainty. An entity must assume that tax authorities will examine the uncertain tax treatment and will have full knowledge of all relevant information when doing so.		
Amendments to IFRS 9 *Financial Instruments*	These amendments allow prepayable financial assets with negative compensation representing contractual cash flows that are solely payments of principal and interest on the principal amount outstanding to be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss as long as such financial assets meet the remaining requirements applicable under IFRS 9.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2019
Amendments to IAS 28 *Investments in Associates and Joint Ventures*	The amendments clarify that entities apply IFRS 9 *Financial Instruments* to investments in subsidiaries and joint ventures, which are not accounted for using the equity method.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2019

4. Reporting and geographical segments

Reporting segments

Below, the Company presents its principal reporting segments. The division into segments presented below is based on the criteria of materiality of revenue and share of investments in the separate 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 the segment's performance, as the management believes the gross profit to be the most appropriate metric for the assessment of the segment's results against other entities operating in the industry.

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

The Group's operations are divided into three segments based on the scale and place of operations:

- Poland,
- Romania,
- Other foreign markets.

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

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Reporting segments

For the year ended December 31st 2017	**Poland**	**Romania**	**Other foreign markets**	**TOTAL**
Revenue	**96,629**	**37,169**	**8,924**	**142,722**
Purchased debt portfolios	11,476	34,645	1,265	**47,386**
Collection services	65,660	-	-	**65,660**
Other products	19,494	2,524	7,659	**29,677**
Direct and indirect costs				**(113,732)**
Purchased debt portfolios	-	-	-	**(14,066)**
Collection services	-	-	-	**(97,197)**
Other products	-	-	-	**(2,469)**
Gross profit				**28,991**
Purchased debt portfolios	-	-	-	**33,320**
Collection services	-	-	-	**(31,538)**
Other products	-	-	-	**27,209**
Administrative expenses	-	-	-	**(79,463)**
Amortisation	-	-	-	**(11,684)**
Other income	-	-	-	**2,085**
Other expenses (unallocated)	-	-	-	**(4,951)**
Finance income/costs	-	-	-	**125,752**
Profit before tax	-	-	-	**60,729**
Income tax	-	-	-	**(31,215)**
Net profit	-	-	-	**29,514**
Carrying amount of debt portfolios	**6,551**	**25,428**	**2,495**	**34,474**

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For the year ended December 31st 2016

	Poland	Romania	Other foreign markets	TOTAL
Revenue	**84,974**	**44,666**	**2,486**	**132,126**
Purchased debt portfolios	5,569	43,695	1,445	**50,709**
Collection services	67,029	-	-	**67,029**
Other products	12,376	971	1,041	**14,388**
Direct and indirect costs				**(105,095)**
Purchased debt portfolios	-	-	-	**(16,751)**
Collection services	-	-	-	**(78,963)**
Other products	-	-	-	**(9,381)**
Gross profit				**27,031**
Purchased debt portfolios	-	-	-	**33,958**
Collection services	-	-	-	**(11,934)**
Other products	-	-	-	**5,007**
Administrative expenses	-	-	-	**(64,497)**
Amortisation	-	-	-	**(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**

Gross profit = operating income − operating expenses

5. Revenue

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Revenue from debt purchase	45,054	53,099
Income from property	2,331	(2,390)
Revenue from credit management	70,954	56,872
Revenue from other services	23,736	24,415
Revenue from sale of merchandise and materials	648	130
	142,722	132,126

Revenue from debt purchase

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Interest income adjusted for actual recoveries	30,809	33,970
Revaluation of debt portfolios	13,665	19,129
Foreclosure of property	579	-
	45,054	53,099

Revaluation of debt portfolios

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Revision of recovery forecast	16,210	17,913
Change due to change in discount rate	(212)	(43)
Foreign exchange gains/(losses)	(2,332)	1,259
	13,665	19,129

Revenue from debt purchase includes:

Revenue from debt portfolios measured at fair value

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Interest income adjusted for actual recoveries	30,146	32,710
Revaluation of debt portfolios	13,771	19,025
Foreclosure of property	579	-
Income from property	2,331	(2,390)
	46,826	49,345

Revaluation of debt portfolios measured at fair value

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Revision of recovery forecast	16,191	17,888
Change due to change in discount rate	(212)	(43)
Foreign exchange gains/(losses)	(2,208)	1,180
	13,771	19,025

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 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Interest income adjusted for actual recoveries	664	1,260
Revaluation of debt portfolios	(106)	104
	558	1,364

Revaluation of debt portfolios measured at amortised cost

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Revision of recovery forecast	18	25
Foreign exchange gains/(losses)	(124)	79
	(106)	104

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 49% 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 2.73% of revenue from credit management services, and among related entities – for 62.25% (2016: respectively 6.22% and 60.77%).

6. Other income

PLN '000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Return of compensation for damage caused by motor vehicles		753	688
Gain on sale of property, plant and equipment		800	214
Reversal of impairment losses on receivables	*28*	19	6
Other		513	256
		2,085	1,164

7. Services

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Collection services	(11,072)	(12,950)
Space rental and service charges	(6,175)	(5,950)
Consultancy services	(5,446)	(4,378)
Postal and courier services	(4,139)	(4,476)
IT services	(3,971)	(2,946)
Other auxiliary services	(2,299)	(2,518)
Communications services	(1,965)	(1,679)
Banking services	(1,055)	(928)
Printing services	(977)	(621)
Repair of vehicles	(560)	(535)
Security	(555)	(385)
Recruitment services	(489)	(446)
Packing services	(335)	(243)
Repair and maintenance services	(203)	(113)
Marketing and management services	(159)	(156)
Transport services	(54)	(30)
Other rental	(21)	(59)
	(39,474)	(38,413)

8. Other expenses

PLN '000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Taxes and charges		(16,427)	(13,813)
Raw materials and energy used		(6,312)	(6,393)
Advertising		(3,887)	(1,920)
Business trips		(3,493)	(1,854)
Staff training		(3,375)	(2,759)
Motor insurance		(1,183)	(594)
Losses from damage caused by motor vehicles		(844)	(748)
Non-competition		(166)	(154)
Court fees		(660)	(1,075)
Re-billed costs of services		(632)	(265)
Property insurance		(242)	(116)
Entertainment expenses		(225)	(282)
Impairment losses on receivables	*28*	(46)	(906)
Accumulated amortisation of receivables		(4)	-
Other		(2,315)	(1,688)
		(39,810)	(32,566)

9. Employee benefits expense

	Jan 1 – Dec 31 2017	**Jan 1 – Dec 31 2016**
Salaries and wages	(89,587)	(78,152)
Old-age and disability pension contributions (defined contribution plans)	(12,165)	(10,878)
Equity-settled cost of stock option plan	(10,147)	(7,702)
Other social security contributions	(5,993)	(5,358)
Contribution to the State Fund for the Disabled	(969)	(879)
	(118,861)	(102,969)

10. Finance income and costs

Recognised as profit or loss of current period

Finance income

PLN '000	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Dividend income		192,102	116,016
Interest income on loans advanced and receivables		4,986	3,090
Interest income on bank deposits		164	165
Remeasurement of investments in subsidiaries		96,327	15,925
Remeasurement of loans		61,008	-
Net foreign exchange losses		6,944	-
		361,532	135,196

(*) Position of remeasurement of investments in subsidiaries involves the result of sale of shares of Secapital S.a.r.l described in Note 15.

Finance costs

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Interest expense on financial liabilities measured at amortised cost	(79,812)	(60,475)
Net foreign exchange losses	-	(6,619)
Interest income/expense on hedging instruments	3,306	-
Remeasurement of investments in subsidiaries	(159,275)	-
	(235,781)	(67,094)

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 – Dec 31 2017	Jan 1 – Dec 31 2016
Total interest income on financial assets	5,151	3,255
Total interest expense on financial liabilities	(76,506)	(60,475)

11. Income tax

Income tax recognised in profit or loss of the period

PLN '000	*Note*	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Income tax (current expense recognised in the income statement)			
Income tax for period (*)		(21,265)	(7,235)
Income tax (deferred expense recognised in the income statement)			
Origination/reversal of temporary differences	*17*	(9,950)	(6,881)
Income tax recognised in the income statement		(31,215)	(14,116)
Income tax (deferred expense recognized in other comprehensive income)			
Origination/reversal of temporary differences	*17*	(1,380)	-
Income tax recognised in other comprehensive income		(1,380)	-
		(32,595)	(14,116)

(*) Income tax for reporting period and its correction for 2014 are in amount PLN 2,940 thousand.

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

Reconciliation of effective tax rate

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Profit before tax	60,729	18,328
Income tax recognised in the income statement	(31,215)	(14,116)
Profit before tax for period (assuming 19% tax rate)	60,729	18,328
Tax calculated at the tax rate applicable in Poland (19%)	(11,539)	(3,482)
Effect of non-deductible expenses	(19,677)	(10,633)
	(31,215)	(14,116)

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

As at December 31st 2017
PLN '000

	Note	Dec 31 2017	Dec 31 2016
Assets			
Non-current assets			
Property, plant and equipment		19,062	21,019
Intangible assets		15,183	13,261
Hedge derivatives		8,637	-
Investments in subsidiaries		2,849,889	1,940,043
Total non-current assets		2,892,771	1,974,323
Current assets			
Inventories		171	188
Investments in debt portfolios and loans	*16*	172,297	162,976
Trade receivables from related entities		45,207	38,883
Trade receivables from other entities		2,881	3,301
Other receivables		9,276	15,292
Cash and cash equivalents		16,917	162,936
Other assets		4,133	4,402
Total current assets		250,883	387,977
Total assets		3,143,654	2,362,301
Equity and liabilities			
Equity			
Share capital		18,808	18,744
Share premium		293,581	288,326
Cash flow hedging reserve		5,882	-
Other capital reserves		86,806	76,659
Retained earnings		309,548	317,522
Total equity		714,625	701,251
Non-current liabilities			
Deferred tax liability		15,351	4,018
Non-current liabilities under borrowings and other debt instruments		1,545,101	1,328,099
Hedge derivatives		1,375	-
Total non-current liabilities		1,561,827	1,332,116
Current liabilities			
Current liabilities under borrowings and other debt instruments		241,386	266,527
Trade and other payables		593,741	39,152
Income tax payable		14,401	3,514
Employee benefit obligations		17,673	19,742
Total current liabilities		867,201	328,935
Total liabilities		2,429,028	1,661,051
Total equity and liabilities		3,143,654	2,362,301

13. 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 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

	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 2017	730	16,277	23,520	691	1,140	42,358
Purchase	16	4,731	3,309	51	(1,140)	6,966
Sale/ liquidation	-	(689)	(6,730)	-	-	(7,419)
Gross value as at Dec 31 2017	746	20,319	20,099	742	-	41,906

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 2016	(80)	(9,457)	(7,794)	(442)	-	(17,773)
Amortisation	(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
Accumulated depreciation and impairment losses as at Jan 1 2017	(104)	(11,123)	(9,626)	(486)	-	(21,339)
Amortisation	(35)	(2,531)	(4,636)	(51)	-	(7,253)
Decrease resulting from sale/ liquidation	-	686	5,063	-	-	5,749
Accumulated depreciation and impairment losses as at Dec 31 2017	(139)	(12,968)	(9,199)	(537)	-	(22,843)

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 Jan 1 2016	470	4,467	8,770	193	127	14,027
As at Dec 31 2016	626	5,154	13,894	205	1,140	21,019
As at Jan 1 2017	626	5,154	13,894	205	1,140	21,019
As at Dec 31 2017	607	7,351	10,900	204	-	19,062

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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 2017 and December 31st 2016 was PLN 8,825 thousand and PLN 11,610 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 2017, the Company did not incur any costs related to the purchase of any equipment which was not placed in service as at December 31st 2017. As at December 31st 2017 and December 31st 2016, the value of property, plant and equipment under construction was PLN 0 thousand and PLN 1,140 thousand, respectively.

14. Intangible assets

PLN '000	Software, licences, permits	Other	Total
Gross value of intangible assets			
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
Gross value as at Jan 1 2017	25,787	369	26,156
Produced internally	5,821	-	5,821
Other increase	977	-	977
Decrease	(2,039)	-	(2,039)
Gross value as at Dec 31 2017	30,547	369	30,916
			-

PLN '000	Software, licences, permits	Other	Total
Accumulated amortisation and impairment losses			
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)
Accumulated amortisation and impairment losses as at Jan 1 2017	(12,526)	(369)	(12,895)
Amortisation	(4,431)	-	(4,431)
Decrease	1,593	-	1,593
Accumulated amortisation and impairment losses as at Dec 31 2017	(15,364)	(369)	(15,733)

PLN '000	Software, licences, permits	Other	Total
Net value			
As at Jan 1 2016	10,735	-	10,735
As at Dec 31 2016	13,261	-	13,261
As at Jan 1 2017	13,261	-	13,261
As at Dec 31 2017	15,183	-	15,183

15. Investments in subsidiaries

PLN '000	Jan 1 2018	Dec 31 2017
Long-term investments		
Gross value of shares in subsidiaries	3,086,647	2,007,990
Impairment loss on shares	(236,758)	(67,947)
Net value of shares in subsidiaries	2,849,889	1,940,043

PLN '000	Country	Gross value of investment Dec 31 2017	Impairment loss Dec 31 2017	Gross value of investment Dec 31 2016	Impairment loss Dec 31 2016
SeCapital S.à r.l. *	Luxembourg	174,101	-	662,045	-
ERIF Business Solutions Sp. z o.o.	Poland	1,402	(1,302)	100	-
SeCapital Polska Sp. z o.o.	Poland	50	(50)	50	(50)
ERIF Biuro Informacji Gospodarczej S.A.	Poland	3,104	-	3,104	-
Novum Finance Sp. z o.o.	Poland	2,100	-	2,100	-
KRUK Romania S.r.l	Romania	79,732	-	77,617	(18,596)
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	300	-	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	18,500	-	7,700	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	86,697	(86,697)	49,331	(49,278)
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	6	(20)	28	(22)
InvestCapital Ltd *	Malta	1,612,096	-	1,066,565	-
RoCapital IFN S.A.*	Romania	13,888	(4,979)	13,888	-
Kruk Deutschland GmbH	Germany	64,877	(55,892)	54,444	-
KRUK Italia S.r.l	Italy	52,452	(48,843)	4,686	-
ItaCapital S.r.l	Italy	1,114	-	435	-
Credit Base International S.r.l	Italy	-	-	10,352	-
KRUK Espana S.L.	Spain	73,304	(38,975)	5,013	-
Espand Soluciones de Gestion S.L.	Spain	-	-	49,694	-
ProsperoCapital S.à r.l.	Luxembourg	538	-	538	-
PRESCO Investments S.a.r.l	Luxembourg	198,294	-	-	-
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	18,295		-	-
PROKURA NS FIZ	Poland	685,796	-	-	-
		3,086,647	(236,758)	2,007,990	(67,947)

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

On October 12th 2017, KRUK S.A. and Lehman Brothers Holding concluded an agreement to purchase 100% of the BISON NS FIZ (closed-end investment fund) certificates.

On November 20th 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 14,427,835 investment certificates of PROKURA NS FIZ.

On December 22nd 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 15,352,782 investment certificates of PROKURA NS FIZ.

On December 22nd 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 100% of shares in Presco Investments S.a.r.l.

On December 22nd 2017, KRUK S.A. contributed 121,319 shares in Secapital S.a.r.l to InvestCapital Ltd in exchange for 229,209,000 shares in the latter.

In 2017, the Company tested its investments in subsidiaries for impairment. As a result, impairment losses were recognised on the following investments:

- Kruk Deutschland GmbH – PLN 55,892 thousand,
- Kruk Italia S.r.l – PLN 48,843 thousand,
- Kruk Espana S.L – PLN 38,975 thousand,
- Rocapital IFN S.A. – PLN 4,979 thousand,
- Kruk Česká a Slovenská republika s.r.o. - PLN 29,778 thousand.

In case of Kruk Romania S.r.l, there was reversal in the amount of PLN 18,595 thousand.

PLN '000	**Country**	**Shareholding (%) Dec 31 2017**	**Dec 31 2016**
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.L.	Spain	100%	100%
ProsperoCapital S.à r.l.**	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
P.R.E.S.C.O INVESTMENT I NS FIZ*	Poland	100%	100%
Credit Base International S.r.l.	Italy	-	100%
Elleffe Capital S.r.l.*	Italy	100%	100%

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Espand Soluciones de Gestion S.L.	Spain	-	100%
BISON NS FIZ*	Poland	100%	-
Corbul S.r.l.***	Romania	-	-

* Subsidiaries in which the Company indirectly holds 100% of the share capital.
** ProsperoCapital S.a.r.l. is a party of cooperation agreement.
***The Parent controls the company through personal relations

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2017 and for the period from January 1st to December 31st 2017.

In 2017, the Parent made additional contributions to the equity of the subsidiary KRUK Deustchland Gmbh totalling PLN 10,433 thousand.

In 2017, the Parent made additional contributions to the equity of the subsidiary KRUK Italy S.r.l totalling PLN 33,187 thousand.

In 2017, the Parent made additional contributions to the equity of the subsidiary KRUK Espania S.r.l totalling PLN 10,788 thousand.

In 2017, the Parent reduced the share capital of the subsidiary Secapital S.a.r.l. by PLN 173,445 thousand.

In 2017, the Parent increased the share capital of the subsidiary InvestCapital Ltd. by PLN 315,773 thousand.

In 2017, the Parent increased the share capital of the subsidiary KRUK TFI S.A. by PLN 10,800 thousand.

Impairment testing of investments in subsidiaries

For impairment testing purposes, the value of investments in subsidiaries was allocated to the companies' operating departments, being the smallest units.

The recoverable amount of investments in subsidiaries associated with the cash-generating units specified above was assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units. In order to perform an impairment test of a given company, as a first step cash-generating units associated with the company were defined. In the case of Kruk Espana S.L and Kruk Italia S.r.l, the credit management business (debt collection services for related and unrelated entities) was identified as the cash-generating unit. In the case of Kruk Ceska and Slovenska and Kruk Deustchland, in addition to the credit management business, the value of investments in debt portfolios was also taken into account. The key assumption underlying the calculation of recoverable amount is the level of margin earned on the business activities identified above. The assumptions adopted are based on historical performance, current knowledge of the credit management market, potential of the operating structures and potential of the debt portfolios held by the subsidiaries.
Next, a five-year forecast of cash flows related to this activity was made. The cash flows were discounted with the weighted average cost of capital, reflecting the structure and financing costs of the KRUK Group (weighted average cost of capital as at December 31st 2017: 11.6%). In order to calculate the residual value, a 3% growth rate was assumed, based on the projected long-term growth on the market in question.

16. Investments

PLN '000	Jan 1 2018	Dec 31 2017
INVESTMENTS		
Financial assets at fair value through profit or loss	33,334	41,211
Financial assets measured at amortised cost	1,140	2,077
Investment property	23,239	6,780
Loans advanced to related entities	114,584	112,908
	172,297	162,976

Portfolio of debts

Financial assets at fair value through profit or loss (designated as such at the time of initial recognition) include debt portfolios purchased prior to January 1st 2014.

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

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	Jan 1 2018	Dec 31 2017
Purchased debt portfolios		
Unsecured portfolios	34,474	43,288
	34,474	43,288

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

		Dec 31 2017	Dec 31 2016
Discount rate			
	- risk-free**	0.012% - 3.54%	-0,1% - 2,15%
	- risk premium*	5.77% - 134.29%	5.77% - 146.99%
Period for which cash flows have been estimated		Jan 2018–Dec 2027	Jan 2017–Dec 2026
Nominal value of expected future cash flows		70,682	86,033

** applicable to 99% of debt portfolios*
*** for portfolios valued at amortised cost*

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

PLN '000 **Period**	Dec 31 2017	Dec 31 2016
From 6 to 12 months	32,467	40,140
From 1 to 2 years	18,258	22,504

From 2 to 5 years	17,683	20,184
Over 5 years	2,274	3,205
	70,682	86,033

In the case of debt portfolios measured at fair value, as at the end of each quarter the Company updates, if necessary, the following parameters which are used to estimate future cash flows:
- the risk-free rate - an increase in the risk-free rate entails a drop in fair value;
- risk premium,
- the period for which cash flows are estimated − an extension of this period, with the amount of recoveries unchanged, reduces the fair value of debt portfolios;
- the 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.

In the case of debt portfolios measured at amortised cost, as at the end of each quarter the Company updates, if necessary, the following parameters which are used to estimate future cash flows:
- risk premium,
- the period for which cash flows are estimated − an extension of this period, with the amount of recoveries unchanged, reduces the fair value of debt portfolios;
- the 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.

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

PLN '000	
Value of purchased debt portfolios as at Jan 1 2016	46,933
Purchase of debt portfolios	-
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
Value of purchased debt portfolios as at Jan 1 2017	43,288
Cash recoveries	(53,288)
Value of property	(579)
Revenue from debt purchase (interest and revaluation)	45,054
Value of purchased debt portfolios as at Jan 1 2016	34,474

Loans granted to related entities

The gross value of loans granted to related entities as at December 31, 2017 is PLN 129,347 thousand and the value of impairment loss is PLN 14,763 thousand (as at December 31, 2016 the gross value of loans was PLN 198,006 thousand and the value of a write-off of PLN 85.098 thousand).
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.

Sensitivity analysis – risk-free rate (portfolios measured at fair value)

PLN '000	**Profit or loss for current period**	**Equity excluding profit or loss for current period**

	up by 100 bps	down by 100 bps	up by 100 bps	down by 100 bps
Dec 31 2017				
Investments in debt portfolios	(217)	222	-	-
Dec 31 2016				
Investments in debt portfolios	(268)	275		

Sensitivity analysis – forecast revision

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	increase in recoveries by 100 bps	**decrease in recoveries by 100 bps**	**increase in recoveries by 100 bps**	**decrease in recoveries by 100 bps**
Dec 31 2017				
Investments in debt portfolios	346	(346)	-	-
Dec 31 2016	433	(433)	-	-
Investments in debt portfolios				

Sensitivity analysis – time horizon

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	extension by one year	**shortening by one year**	**extension by one year**	**shortening by one year**
Dec 31 2017				
Investments in debt portfolios	-	(1)	-	-
Dec 31 2016				
Investments in debt portfolios	-	(2)	-	-

17. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Provisions		Net value	
	Jan 1 2018	**Dec 31 2017**	**Jan 1 2018**	**Dec 31 2017**	**Jan 1 2018**	**Dec 31 2017**
Property, plant and equipment	1,677	2,206	(1,971)	(2,431)	(294)	(225)
Intangible assets	-	-	(2,395)	(2,033)	(2,395)	(2,033)
Trade and other receivables	-	-	(289)	(2,747)	(289)	(2,747)
Liabilities under borrowings and other debt instruments	2,005	1,428	-	-	2,005	1,428
Employee benefit obligations	1,962	2,634	-	-	1,962	2,634
Provisions and liabilities	122	697	-	(201)	122	497
Investments in debt portfolios	-	-	(4,322)	(3,571)	(4,322)	(3,571)
Investments in subsidiaries	-	-	(10,760)	-	(10,760)	-
Hedge derivatives	-	-	(1,380)	-	(1,380)	-
Deferred tax assets/liabilities	5,766	6,966	(21,117)	(10,983)	(15,351)	(4,018)
Deferred tax assets offset against liabilities	(5,766)	(6,966)	5,766	6,966	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(15,351)	(4,018)	(15,351)	(4,018)

Change in temporary differences in the period

PLN '000

	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016	As at Jan 1 2017	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2017
Property, plant and equipment	(229)	4	(225)	(225)	(69)	(294)
Intangible assets	(1,725)	(308)	(2,033)	(2,033)	(362)	(2,395)
Financial assets valued at fair value through profit or loss	-	-	-	-	-	-
Trade and other receivables	2,578	(2,578)	-	-	(289)	(289)
Liabilities under borrowings and other debt instruments	(1,143)	(1,604)	(2,747)	(2,747)	4,752	2,005
Employee benefit obligations	-	1,428	1,428	1,428	533	1,962
Provisions and liabilities	3,146	(512)	2,634	2,634	(2,512)	122
Investments in debt portfolios	236	261	497	497	(4,818)	(4,322)
Investments in subsidiaries	-	(3,571)	(3,571)	(3,571)	(7,189)	(10,760)
	2,863	(6,881)	(4,018)	(4,018)	(9,950)	(13,971)

	As at Jan 1 2016	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2016	As at Jan 1 2017	Change in temporary differences recognised as profit or loss of current period	As at Dec 31 2017
Hedge derivatives	-	-	-	-	(1,380)	(1,380)
	-	-	-	-	(1,380)	(1,380)

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.

18. Inventories

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Materials	62	187
Prepaid deliveries	109	1
	171	188

In the reporting period ended December 31st 2017, the Company did not recognise any write-downs on inventories.

19. Trade and other receivables

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Trade receivables from related entities	45,207	38,883
Trade receivables from non-related entities	2,881	3,301
	48,088	42,184

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Other receivables from related entities	3,150	9,764
Other receivables from non-related entities	6,126	5,528
	9,276	15,292

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

20. Cash and cash equivalents

PLN '000	**Dec 31 2017**	**Dec 31 2016**
Cash in hand	45	7
Cash in current accounts	16,872	162,929
	16,917	162,936

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

21. Equity

Share capital

'000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Number of shares as at Jan 1	18,744	17,398
Issue of shares	64	1,346
Number of fully-paid shares at end of period	18,808	18,744

Company's shareholding structure as at December 31st 2017

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,963,407	1,963	10.44%
NN PTE (*)	2,100,000	2,100	11.17%
Aviva OFE	1,149,000	1,149	6.11%
Other members of the Management Board	220,942	221	1.17%
Other shareholders	13,374,551	13,375	71.11%
	18,807,900	18,808	100.00%

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

As at December 31st 2017, the registered share capital was divided into 18,808 thousand ordinary shares (December 31st 2016: 18,744 thousand). The par value per share was PLN 1 (December 31st 2016: PLN 1).

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 2015–2019

The incentive scheme for 2015–2019 was approved by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the "2015–2019 Scheme").

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011–2014 Incentive Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015–2019 Scheme is addressed to the key management personnel of KRUK S.A. and the other Group companies. Under the Scheme, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution.

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 right

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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, on an annualised average basis, by no less than 13% relative to the base year.
Details of the 2015−2019 Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2016.

By way of its resolution of September 8th 2014, the Supervisory Board defined and approved the Rules for the Management Stock Option Scheme for 2015−2019.

Tranche 1
On June 9th 2016, the Supervisory Board declared, by way of resolution, that the condition set forth in the Stock Option Scheme for offering subscription warrants under Tranche 1 for 2015 had been met. As a result, 86,435 subscription warrants were delivered on July 1st 2016 to Eligible Persons who were not Management Board members. On October 27th 2016, 20,000 subscription warrants were delivered to Eligible Persons who were Management Board members.

Tranche 2
By way of the resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Stock Option Scheme for offering subscription warrants under Tranche 2 for 2016 had been met. As a result, 91,467 subscription warrants were delivered on July 7th 2017 to Eligible Persons who were not Management Board members.
On August 27th 2017, 50,480 subscription warrants were delivered to Eligible Persons who were Management Board members.

The Management Board members hold no rights to KRUK shares other than those attached to the subscription warrants presented above.

For information on costs of the Stock Option Scheme, see Note 31.

number of options	**Dec 31 2017**
Number of options priced under the 2015−2019 Scheme as at the beginning of the reporting period*:	731,162
Number of options priced under the 2015−2019 Scheme during the reporting period*:	53,067
Number of options priced under the 2015−2019 Scheme as at the end of the reporting period*:	784,229
Number of options forfeited under the 2015−2019 Scheme during the reporting period**:	9,251
Number of options exercised under the 2015−2019 Scheme during the reporting period:	63,684
Number of options exercisable under the 2015−2019 Scheme as at the end of the reporting period:	42,751
Issue price of options in the 2015-2019 Scheme	**83.52**

** The number of options priced includes all options priced under the Plan, including forfeited options.*
*** Forfeited options are priced options that have not been delivered for reasons provided for in the Rules of the Stock Option Plan.*

22. Earnings per share

Basic earnings per share

As at December 31st 2017, basic earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN 29,514 thousand (2016: PLN 4,212 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,748 thousand (2016: 17,657 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

PLN '000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Net profit for period	29,514	4,212
Net profit attributable to owners of the Company	29,514	4,212

Weighted average number of ordinary shares

'000	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Number of ordinary shares as at Jan 1	18,744	17,398
Effect of cancellation and issue of shares	4	259
Weighted average number of ordinary shares for the year ended December 31st 2017	18,748	17,657
PLN		
Earnings per share	1.57	0.24

Consolidated net profit attributable to owners of the Parent

As at December 31st 2017, basic consolidated earnings per share were calculated based on consolidated net profit attributable to owners of the Parent (holding ordinary shares) of PLN 295,097 thousand (2016: PLN 248,663 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,748 thousand (2016: PLN 17,675 thousand). The amounts were determined as follows:

Consolidated net profit attributable to owners of the Parent

PLN '000	**Jan 1 - Dec 31 2017**	**Jan 1 - Dec 31 2016**
Net profit attributable to owners of the Parent (basic)	295,095	248,663
Net profit attributable to owners of the Parent (diluted)	295,095	248,663

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 - Dec 31 2017**	**Jan 1 - Dec 31 2016**
Number of ordinary shares as at Jan 1	*23*	18,744	17,398
Effect of cancellation and issue		4	259
Weighted average number of ordinary shares for the year ended December 31st 2017		18,748	17,657
PLN			
Earnings per share		15.74	14.08

Dividend per share paid

PLN '000	**Jan 1 - Dec 31 2017**	**Jan 1 - Dec 31 2016**
Dividend paid from profit and retained earnings	37,488	35,491
PLN		
Dividend per share	2.00	2.00

and

Diluted separate earnings per share

As at December 31st 2017, diluted earnings per share were calculated based on net profit attributable to owners of the Company (holding ordinary shares) of PLN 29,514 thousand (2016: PLN 4,212 thousand) and the weighted average diluted number of shares in the period covered by the financial statements of 19,275 thousand (2016: PLN 19,275 thousand). The amounts were determined as follows:

'000	***Note***	**Jan 1 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Weighted average number of ordinary shares for the year ended December 31st 2017		18,748	17,657
Effect of share option issue		527	698
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		19,275	18,355
PLN			
Earnings per share		1.54	0,23

Diluted consolidated earnings per share

As at December 31st 2017, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 295,097 thousand and the weighted average number of shares in the period covered by the financial statements of 19,275 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	***Note***	**Dec 31 2017**	**Dec 31 2016**
Weighted average number of ordinary shares in period ended Dec 31	*23*	18,748	17,657
Effect of issue of unregistered shares not subscribed for		527	698
Weighted average number of ordinary shares in period ended Dec 31 (diluted)		19,275	18,355
PLN			
Earnings per share (diluted)		15.31	13.55

23. 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	**Jan 1 2018**	**Dec 31 2017**
Non-current liabilities		
Secured borrowings	263,828	94,661
Liabilities under debt securities (unsecured)	1,276,772	1,227,027
Finance lease liabilities	4,500	6,411
	1,545,101	1,328,099
Current liabilities		
Short-term portion of secured borrowings	115,571	123,254
Liabilities under debt securities (unsecured)	121,491	138,074
Short-term portion of finance lease liabilities	4,324	5,198
	241,386	266,527

Liabilities repayment schedule

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Jan 1 2018**	**Dec 31 2017**
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	379,399	217,915
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–4.5 pp	2022	1,398,263	1,365,101
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.39–3.58 pp	2020	8,825	11,610
				1,786,486	1,594,625

Security over assets

PLN '000	**Jan 1 2018**	**Dec 31 2017**
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	687,033	498,520
Property, plant and equipment under finance leases	8,825	11,610
	695,858	510,130

For a description of the security created, see Note 33.

24. Hedge derivatives

It has been concluded that effective implementation of KRUK S.A.'s growth strategy requires, among other elements, a proper interest rate risk and currency risk management policy.

The interest rate risk management policy covers the following:

a) the Company's objectives in terms of interest rate risk,
b) interest rate risk monitoring methods,
c) the Company's permissible exposure to the interest rate risk,
d) procedures in case of exceeding permissible exposure to the interest rate risk,
e) interest rate risk management rules of the KRUK Group.

In 2017, the Company entered into two cross currency interest rate swap contracts ("CIRS") in which the Company pays a coupon at fixed rate EUR and receives a coupon at floating rate PLN. The contracts hedge both the currency and the interest rate risk as they effectively replace the Company's debt contracted in the złoty with EUR-denominated liabilities:
1st contract: Company pays at a fixed rate of 3.06%, while Counterparty pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).
2nd contract: Company pays at a fixed rate of 2.97%, while Counterparty pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates and cash flows denominated in a convertible currency due to exchange rate fluctuations.

The Company expects cash flows and their impact on the financial results until 2021.

In 2017, the Company entered into two interest rate swap contracts ("IRS") in which the Company pays a coupon at fixed rate PLN and receives a coupon at floating rate PLN. The contracts hedge interest rate risk.
1st contract: Company pays at a fixed rate of 2.5%, while Counterparty pays at a floating rate equal to 3M WIBOR. Interest payments are made every three months (interest period). The contract was concluded for a period of four years.
2nd contract: Company pays at a fixed rate of 2.5%, while Counterparty pays at a floating rate equal to 3M WIBOR.Interest payments are made every three months (interest period).

The purpose of the transaction is to eliminate the risk of volatility of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates.

The Company expects cash flows and their impact on the financial results until 2022.

In 2016, the Company carried no derivative instruments.

PLN '000

	Carrying amount/fair value of derivative instruments hedging cash flows associated with interest rate and/or foreign exchange rate			
	Dec 31 2017		Dec 31 2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Instrument type:				
CIRS	8,637	-	-	-
IRS		1,375	-	-
	8,637	1,375	-	-

	Nominal value as at Dec 31 2017				
	Below 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
CIRS					
floating payment PLN purchase	-	-	-	190,000	-
fixed payment EUR sale (original currency)	-	-	-	43,418	-
IRS	-	-	-	-	-
fixed payment PLN sale	-	-	-	200,000	-
floating payment PLN	-	-	-	200,000	-

Other comprehensive income from cash flow hedges	**Jan 1 - Dec 31 2017**	**Jan 1 - Dec 31 2016**
Other comprehensive income at beginning of period, before tax	-	-
Gains/(losses) recognised in other comprehensive income during period	10,298	-
Amount reclassified from other comprehensive income to profit or loss during period	3,036	-
Accumulated other comprehensive income at end of period, before tax	7,262	-
Tax effect	(1,380)	-
Accumulated other comprehensive income at end of period, net of tax	5,882	-
Ineffective portion of cash flow hedges recognised in profit or loss	-	-
Effect on other comprehensive income (before tax) during period	7,262	-
Deferred tax on cash flow hedges	(1,380)	-
Effect on other comprehensive income during period, net of tax	5,882	-

25. Employee benefit obligations

PLN '000	**Jan 1 2018**	**Dec 31 2017**
Salaries and wages payable	5,925	5,037
Social benefit obligations	5,086	4,530
Personal income tax	1,493	1,283
Accrued holidays	4,798	3,800
Accrued salaries and wages (bonuses)	206	4,940
Accrued retirement severance payments	124	124

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

Special accounts	41	28
	17,673	19,742

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2016	3,470
Increase	3,828
Use	(3,498)
Value as at Dec 31 2016	3,800
Value as at Jan 1 2017	3,800
Increase	4,914
Use	(3,916)
Value as at Dec 31 2017	4,798

Change in accrued salaries and wages (bonuses)	
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
Value as at Jan 1 2017	4,940
Increase	206
Use	(4,940)
Release	-
Value as at Dec 31 2017	206

26. Current provisions

Tax risk

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with a resulting lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents to follow. 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 and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

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*	**Jan 1 2018**	**Dec 31 2016**
Trade and other payables to related entities	546,642	14,196
Trade payables to other entities	26,156	11,001
Deferred income	12,551	6,131
Taxes, customs duties, insurance and other benefits payable	199	2,827
Accrued expenses	4,566	1,529
Other liabilities	3,627	3,469
	593,741	39,152

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

28. Financial instruments

The Company is exposed to the following risks related to the use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information on the Company's exposure to each type of the above risks, the Company's objectives, policies and procedures for measuring and managing the risks, and the Company's management of capital. Note 28 to these financial statements presents respective quantitative disclosures.

Key policies of risk management

The Management Board is responsible for establishing risk management procedures and for overseeing their application.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Company's activities. Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

Credit risk

Credit risk is the risk of financial loss to the Company if a trading partner or a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with loans advanced by the Company, receivables for the services provided by the Group and purchased debt portfolios.

Trade and other receivables

The Management Board has established a credit policy whereby each trading partner is evaluated for its creditworthiness before any payment dates and other contractual terms and conditions are offered. The evaluation includes external ratings of the trading partner, when available, and in some cases bank references. Each trading partner 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 trading partners
- e-mails are sent to trading partners
- telephone calls are made to trading partners.

Over 80% of the trading partners have done business with the Company for three years or more. Only in few cases losses were incurred by the Company as a result of non-payment. Trade and other receivables mainly comprise of fees receivable in respect of debt collected for trading partners.

The Company's exposure to credit risk results mainly from individual characteristics of each trading partner. The Management Board believes that the Company's credit risk is low as its counterparties are mainly reputable financial institutions and companies. The Company's exposure to credit risk results mainly from individual characteristics of each client. The Company's largest trading partner (excluding the subsidiaries) accounts for 2.13% of the Company's revenue (2016: 2.66%), and the respective percentages for the Company's related entities are 62.25% and 25.73%. Receivables from the Company's largest trading partner among its non-related entities accounted for 0.9% of total gross trade receivables as at December 31st 2017 (December 31st 2016: 6.58%), and in the case of related entities the percentages were 18.5% and 6.58%, respectively. Thus 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 in credit risk assessment affect expected amounts 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 valuation of each portfolio before and after 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 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,
- SMSes,
- 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.

Exposure to credit risk

Carrying amounts of financial assets reflect 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	**Jan 1 2018**	**Dec 31 2016**
Financial instruments at fair value through profit or loss	*16*	33,334	41,211
Financial assets measured at amortised cost	*16*	1,140	2,077
Loans	*16*	114,584	112,908
Receivables	*19*	57,365	57,476
		206,422	213,671

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

PLN '000	Dec 31 2017	Dec 31 2016
Poland	63,661	100,109
Romania	107,620	105,255
The Czech Republic and Slovakia	35,141	8,308
	206,422	213,671

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 Jan 1 2018	Impairment loss Jan 1 2018	Gross value Dec 31 2017	Impairment loss Dec 31 2017
Not due	45,595	-	37,798	-
Past due, 1-30 days	2,552	-	4,746	-
Past due, 31-90 days	3,093	-	9,504	-
Past due, 91-180 days	3,761	-	3,656	-
Past due, 181-365 days	212	46	1,555	906
Past due, over one year	5,021	2,823	3,059	1,936
	60,234	2,869	60,318	2,842

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Impairment loss as at Jan 1	2,842	1,942
Impairment loss recognised in period	46	906
Reversal of impairment loss	(19)	(6)
Use of impairment loss	-	-
Impairment loss as at Dec 31	2,869	2,842

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 2016−2017, the Company did not recognise any general impairment losses on receivables.

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.

Below are presented the contractual terms of financial liabilities:

As at December 31st 2017
PLN '000

	Present value	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	34,474	88,799	18,117	32,467	18,258	17,683	2,274
Secured borrowings	(379,399)	(406,755)	(14,130)	(19,278)	(44,916)	(328,432)	-
Unsecured bonds in issue	(1,398,263)	(1,624,805)	(43,328)	(135,848)	(182,235)	(1,263,394)	-
Finance lease liabilities	(8,825)	(9,035)	(2,929)	(2,214)	(3,401)	(491)	-
Trade and other payables	(593,741)	(593,741)	(593,741)	-	-	-	-
	(2,345,755)	(2,545,537)	(636,011)	(124,873)	(212,294)	(1,574,634)	2,274

As at December 31st 2016

PLN '000

	Present value	Contractual cash flows	Below 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	43,288	70,682	18,117	14,350	18,258	17,683	2,274
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)	-	-	-	-
	(1,590,490)	(1,831,711)	(177,636)	(36,811)	(164,873)	(1,164,684)	(287,708)

Contractual cash flows were determined based on interest rates effective as at December 31st 2016 and December 31st 2017, 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 2017, the undrawn revolving credit facility limit available to the Company was PLN 111,728 thousand (2016: PLN 295,024 thousand). The undrawn limit is available until October 30th 2020.

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 2017, assets denominated in foreign currencies accounted for 1.15% of total assets, while liabilities denominated in foreign currencies represented 7.9% of total liabilities (December 31st 2015: 2.12% and 9.1%, 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.

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 2017			Dec 31 2016		
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	84	1,335	15	160	3,271	5
Cash	28	7,192	393	83	10,221	831
Financial assets at fair value through profit or loss	323	24,288	1,879	650	30,377	2,552
Financial assets measured at amortised cost	-	1,140	-	-	1,905	-
Liabilities under borrowings and other debt instruments	(250,213)	(9)	-	(201,470)	(11,514)	-
Trade payables	(185)	(750)	(64)	(223)	(1,622)	(5)
Exposure to currency risk	(249,964)	33,196	2,223	(200,800)	32,638	3,383
Risk mitigation effect	190,000	-	-	-	-	-
Open positions	(59,964)	33,196	2,223	(200,800)	32,638	3,383

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

PLN	**Average exchange rates**		**End of period (spot rates)**	
	Jan 1 – Dec 31 2017	**Jan 1 – Dec 31 2016**	**Dec 31 2017**	**Dec 31 2016**
1 EUR	4.3757	4.3757	4.4240	4.4240
1 USD	3.9680	3.9680	4.1793	4.1793
1 RON	0.9739	0.9739	0.9749	0.9749
1 CZK	0.1618	0.1618	0.1637	0.1637
100 HUF	1.4034	1.4034	1.4224	1.4224

As at December 31st 2017, 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 for current period
Dec 31 2017		
EUR (10% appreciation of PLN)	-	24,996
RON (10% appreciation of PLN)	-	(3,320)
CZK (10% appreciation of PLN)	-	(222)
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 2017	**Dec 31 2016**
Fixed-rate financial instruments		
Financial assets	58,505	59,553
Financial liabilities	(865,628)	(138,839)
	(807,123)	(79,286)
Risk mitigation effect	(390,000)	-
	(1,197,123)	-
Floating-rate financial instruments		
Financial assets	147,918	154,118
Financial liabilities	(1,514,601)	(1,494,939)
	(1,366,683)	(1,340,821)
Risk mitigation effect	390,000	-
	(976,683	(1,340,821)

Sensitivity analysis of fair value of fixed 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 variable 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 by the amounts shown below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

PLN '000	**Profit or loss for current period**		**Equity excluding profit or loss for current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2017				
Variable rate financial assets	(217)	222	-	-
Variable rate financial liabilities	(22,177)	22,177	-	-
Dec 31 2016				
Variable rate financial assets	(268)	275	-	-
Variable rate financial liabilities	(54,771)	54,771	-	-

Fair values

Comparison of 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 2017**		**Dec 31 2016**	
	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	33,334	33,334	41,211	41,211
Hedge derivatives	7,261	7,261	-	-
	40,595	40,595	41,211	41,211
Financial assets and liabilities not measured at fair value				
Financial assets measured at amortised cost	1,140	1,018	2,077	1,731
Investment property	23,239	23,239	6,780	6,780
Loans and receivables	114,584	114,584	112,908	112,908
Secured bank borrowings	(379,399)	(379,399)	(217,915)	(217,915)
Unsecured bonds in issue	(1,398,263)	(1,374,306)	(1,365,101)	(1,366,204)
Finance lease liabilities	(8,825)	(8,825)	(11,610)	(11,610)
Trade and other payables	(593,741)	(593,741)	(39,152)	(39,152)
	(2,241,265)	(2,217,430)	(1,512,013)	(1,513,462)

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

Interest rates used for fair value estimation

Hierarchy of financial instruments measured at fair value

The table below presents the fair value of financial instruments recognised in the statement of financial position at fair value and at amortised cost. 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 2014−2017, no transfers were made between the levels.

	Dec 31 2017	Dec 31 2016
Financial assets measured at fair value and at amortised cost	5.77% - 134.29%	7.92% - 151.4%
Borrowings	1.83%-3.65%	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%

PLN '000	Level 3
As at Dec 31 2016	
Financial assets at fair value through profit or loss	41,211
Financial assets measured at amortised cost	1,731
As at Dec 31 2017	
Financial assets at fair value through profit or loss	33,334
Financial assets measured at amortised cost	1,018

The fair value of purchased debt portfolios 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 2017**	**Dec 31 2016**
up to 1 year	6,061	5,394
from 1 to 5 years	19,181	16,225
	25,242	21,619

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 for a term of ten years, is terminable after the initial period of five years. The annual cost of use is PLN 1,013 thousand.
- Agreement for the use of property with an area of 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. Following the lapse of the three-year period, the agreement is effective for an indefinite term.

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 – Dec 31 2017**	**Jan 1 – Dec 31 2016**
Base pay/ managerial contract (gross)	5,559	2,106
Provision for employee bonuses for current year	206	1,265
Share based payments	4,119	7,702
	9,884	11,073

Other related-party transactions

As at December 31st 2017, members of the Management Board and persons closely related to them jointly held 11.62% of the total voting rights at the Company's General Meeting (December 31st 2016: 12.19%).

Transactions with subsidiaries as at and for the period ended December 31st 2016

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	2,391	1,455	-	-
ERIF Business Solutions Sp. z o.o.	-	22	-	-
Novum Finance Sp. z o.o.	406	406	22,088	68
SeCapital Polska Sp. z o.o.	-	1	50	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,429	4,816	500	13
KRUK Romania S.r.l	5,444	8,758	69,484	2,127
Rejestr Dłużników ERIF BIG S.A.	25	294	-	-
NSFIZ PROKURA	2,180	9,699	-	-
KRUK Česká a Slovenská republika s.r.o.	148	1,369	14,490	1,039
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	2,740	-	-
InvestCapital Malta Ltd.	-	67	-	1,077
KRUK Deutschland GmbH	-	235	-	-
KRUK Deutschland (Branch)	-	38	-	-
Rocapital IFN S.A.	-	9	285	-
KRUK Italia S.r.l	-	103	-	-
ItaCapital S.r.l	-	358	-	-
KRUK Espana S.L.	-	35	-	-
Presco Investments S.a.r.l.	2,173	17,940	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	299	-	-
ProsperoCapital S.à r.l.	-	-	-	-
ProsperoCapital Sp. z.o.o. (in liquidation)	-	3	-	-
Credit Base International S.r.l	-	-	1,683	3
	14,196	48,647	108,580	4,328

Revenue from mutual transactions

PLN '000	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	1,901	20,023
ERIF Business Solutions Sp. z o.o.	72	-	143
Novum Finance Sp. z o.o.	314	-	-
SeCapital Polska Sp. z o.o.	13	-	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	2,056	-	36
KRUK Romania S.r.l	2,492	-	1,630
Rejestr Dłużników ERIF BIG S.A.	783	-	-
NSFIZ PROKURA	66	-	-
KRUK Česká a Slovenská republika s.r.o.	1,041	-	751
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	33,923	-

InvestCapital Malta Ltd.	192	-	95,481
KRUK Deutschland GmbH	994	-	-
KRUK Deutschland (Branch)	226	-	-
Rocapital IFN S.A.	(58)	-	55
ProsperoCapital Sp. z.o.o. (in liquidation)	11	-	1
KRUK Italia S.r.l	450	-	-
ItaCapital S.r.l	391	-	-
KRUK Espana S.L.	585	-	-
Presco Investments S.a.r.l.	10,418	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
ProsperoCapital S.à r.l.	-	-	-
	20,046	35,824	118,121

Costs of mutual transactions

PLN '000	**Purchase of services**
ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	2,403
KRUK Romania S.r.l	9,670
Rejestr Dłużników ERIF BIG S.A.	312
KRUK Česká a Slovenská republika s.r.o.	415
	12,801

Transactions with subsidiaries as at and for the period ended December 31st 2017

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	539,428	1,506	-	-
ERIF Business Solutions Sp. z o.o.	-	132	-	-
Novum Finance Sp. z o.o.	-	771	18,090	-
SeCapital Polska Sp. z o.o.	-	1	97	-
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,225	7,979	-	-
KRUK Romania S.r.l	588	4,142	76,466	786
ERIF BIG S.A.	25	304	-	-
NSFIZ PROKURA	5,557	11,320	-	-
KRUK Česká a Slovenská republika s.r.o.	85	4,052	27,016	51
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	7,516	-	-
InvestCapital Malta Ltd.	-	743	-	-
KRUK Deutschland GmbH	-	301	-	-
KRUK Deutschland (Branch)	-	20	-	-
Rocapital IFN S.A.	14	10	-	-
KRUK Italia S.r.l	12	1,403	-	-
ItaCapital S.r.l	-	65	-	-

KRUK Espana S.L.	-	881	-	-
Presco Investments S.a.r.l.	-	1,399	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	344	-	-
NSFIZ BISON	-	39	-	-
	546,934	42,928	121,669	837

Revenue from mutual transactions

PLN '000	**Revenue from sale of materials and services**	**Revenue from credit management services**	**Interest and dividends**
SeCapital S.à. r.l	-	480	154,604
ERIF Business Solutions Sp. z o.o.	156	-	58
Novum Finance Sp. z o.o.	1,672	-	339
SeCapital Polska Sp. z o.o.	11	-	3
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	4,138	-	5,072
KRUK Romania S.r.l	2,744	-	3,226
ERIF BIG S.A.	914	-	-
NSFIZ PROKURA	61	-	-
KRUK Česká a Slovenská republika s.r.o.	2,271	-	1,327
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	45,146	-
InvestCapital Malta Ltd.	12,425	-	32,428
KRUK Deutschland GmbH	983	-	-
KRUK Deutschland (Branch)	234	-	-
Rocapital IFN S.A.	10	-	4
KRUK Italia S.r.l	1,577	-	28
ItaCapital S.r.l	391	-	-
KRUK Espana S.L.	1,326	-	-
Presco Investments S.a.r.l.	13,352	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	35	-	-
NSFIZ BISON	6	-	-
	42,306	45,626	197,089

Costs of mutual transactions

PLN '000	**Purchase of services**
ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,560
KRUK Romania S.r.l	7,893
ERIF BIG S.A.	254
KRUK Česká a Slovenská republika s.r.o.	459
	10,167

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
Dec 31 2017	10,147
Total	46,805

The details regarding the stock option scheme was described in Note 21.

32. Auditor's fees

PLN '000	Jan 1 2018	Dec 31 2017
Mandatory audit of full-year financial statements and review of half-year financial statements	1,053	1,085
Assurance services	408	25
	1,461	1,110

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards BZ WBK S.A. under the credit facility granted to PROKURA NS FIZ	Bank Zachodni WBK S.A.	PLN 30m	Until fulfilment of all obligations under the credit facility agreement	PROKURA NS FIZ’s failure to pay its liabilities under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to PROKURA NS FIZ	PKO BP S.A.	PLN 52.97m	Until December 19th 2022	PROKURA NS FIZ’s failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to PROKURA NS FIZ	PKO BP S.A.	PLN 40.14m	Until June 4th 2024	PROKURA NS FIZ’s failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to PROKURA NS FIZ	mBank S.A.	PLN 150m	Until July 1st 2025	PROKURA NS FIZ’s failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Bank Zachodni WBK S.A.	PLN 162.40m	Until settlement of derivative transactions and satisfaction of the Bank’s claims related to the transactions.	KRUK S.A.’s failure to repay its liabilities under treasury transactions made on the basis of the Framework Agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended.

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

Guarantee issued by Kruk S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until fulfilment of all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A.	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Surety for InvestCapital LTD's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017 executed between KRUK S.A., InvestCapital LTD (the Borrower), and DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A.,	EUR 375m	Until all obligations under the credit facility agreement are discharged.	InvestCapital LTD's failure to pay amounts due under the credit facility agreement
Guarantee issued by BZ WBK S.A. for KRUK S.A.'s liabilities under the Rental Agreement	DEVCo Sp. z o.o.	EUR 0.279m and PLN 0.186m	Until December 30th 2018	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the Guarantee

33. Contingent liabilities

On October 12th 2017, KRUK S.A. and Lehman Brothers Holding concluded an agreement to purchase 100% of the BISON NS FIZ (closed-end investment fund) certificates. If from the beginning of the transition period to the expiry of five years from the time of signing the agreement the amounts recovered from the portfolios held by BISNON NS FIZ exceed PLN 60,000 thousand, KRUK S. A. will be obliged to pay remuneration to the original owner of the investment certificates. The remuneration will be computed as 40% of the amounts recovered in excess of PLN 60,000 thousand.

34. Events subsequent to the reporting date

On March 6th 2018, the Management Board of KRUK S.A. passed a resolution to recommend to the Annual General Meeting of KRUK S.A. distribution of dividend of PLN 5 per share. The payment will be made from KRUK S.A.'s net profit for 2017, increased by an amount transferred from statutory reserve funds created out of retained earnings. The recommendation on dividend payment and amount was made taking into account the KRUK Group's current financial condition as well as its further growth strategy, plans and prospects.

Piotr Krupa
President of the Management Board

Agnieszka Kułton
Member of the Management Board

Urszula Okarma
Member of the Management Board

Iwona Słomska
Member of the Management Board

Michał Zasępa
Member of the Management Board

Katarzyna Raczkiewicz
Person responsible for maintaining the accounting records

Wrocław, March 19th 2018