KRUK S.A.
Separate financial statements
for the financial year ended December 31st 2018

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

KRUK S.A.
December 31st 2018

Separate financial statements

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Separate statement of profit or loss

For the financial year ended December 31st 2018
PLN '000

	Note	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Revenue	*5*	120,175	142,722
including interest income calculated using the effective interest rate method		20,364	n/a
Other income	*6*	2,391	2,085
		122,566	144,807
Employee benefits expense	*9*	(129,428)	(118,861)
Depreciation and amortisation	*13.1*	(13,073)	(11,684)
Services	7	(38,730)	(39,474)
Other expenses	*8*	(37,281)	(39,810)
		(218,512)	(209,829)
Operating loss		(95,946)	(65,022)
Finance income	*10*	133,006	300,524
Finance costs	*10*	(92,179)	(174,773)
Net finance income		40,827	125,751
Profit/(loss) before tax		(55,119)	60,729
Income tax	*11*	(2,699)	(31,215)
Net profit/(loss) for period		(57,818)	29,514
Earnings/(loss) per share			
Basic (PLN)	*22*	(3.07)	1.57
Diluted (PLN)	*22*	(2.99)	1.54

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 financial year ended December 31st 2018
PLN '000

	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Net profit/(loss) for period	**(57,818)**	**29,514**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	(11,131)	7,262
Income tax on derivatives	1,380	(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	(9,751)	5,882
Total comprehensive income for period	(67,569)	35,396

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 2018

PLN '000

		Note	Dec 31 2018	Dec 31 2017
Assets				
	Cash and cash equivalents	20	9,151	16,917
	Trade receivables from related entities	19	21,814	45,207
	Trade receivables from other entities	19	2,811	2,881
	Investments	16	176,905	172,297
	Other receivables	19	7,223	9,276
	Inventories	18	22	171
	Property, plant and equipment	13	16,169	19,062
	Intangible assets	14	16,547	15,183
	Deferred tax asset	17	453	-
	Other derivatives	24	1,450	8,637
	Investments in subsidiaries	15	2,143,481	2,849,889
	Other assets		4,173	4,133
Total assets			2,400,199	3,143,654
Equity and liabilities				
Liabilities				
	Other derivatives	24	3,870	1,375
	Trade and other payables	27	62,948	593,741
	Employee benefit obligations	25	19,199	17,673
	Income tax payable		12,295	14,401
	Liabilities under borrowings and other debt instruments	23	1,731,998	1,786,487
	Deferred tax liability	17	-	15,351
Total liabilities			1,830,310	2,429,028
Equity				
	Share capital	21	18,887	18,808
	Share premium		300,097	293,581
	Hedging reserve		(3,869)	5,882
	Other capital reserves		94,924	86,806
	Retained earnings		159,850	309,548
Total equity			569,889	714,625
Total equity and liabilities			2,400,199	3,143,654

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 financial year ended December 31st 2018
PLN '000

	Note	Share capital	Share premium	Hedging reserve	Other capital reserves	Retained earnings	**Total equity**
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
Total comprehensive income for period		-	-	5,882	-	29,514	35,396
Contributions from and distributions to owners							
- Payment of dividends		-	-	-	-	(37,488)	(37,488)
- Share-based payments		-	-	-	10,147	-	10,147
- Issue of shares		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
Adjustment on transition to IFRS 9		-	-	-	-	2,160	2,160
Equity as at Jan 1 2018 following changes in accounting policies		**18,808**	**293,581**	**5,882**	**86,806**	**311,708**	**716,785**
Comprehensive income for period							
Net profit for period		-	-	-	-	(57,818)	(57,818)
Other comprehensive income							
- Valuation of hedging instruments		-	-	(9,751)	-	-	(9,751)
Total comprehensive income for period		-	-	(9,751)	-	(57,818)	(67,569)
Contributions from and distributions to owners							
- Payment of dividends	*22*	-	-	-	-	(94,040)	(94,040)
- Share-based payments	*31*	-	-	-	8,118	-	8,118
- Issue of shares	*21*	79	6,516	-	-	-	6,595
Total contributions from and distributions to owners		79	6,516	-	8,118	(94,040)	(79,327)
Total equity as at Dec 31 2018		18,887	300,097	(3,869)	94,924	159,850	569,889

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 financial year ended December 31st 2018
PLN '000

	Note	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Cash flows from operating activities			
Net profit for period		(57,818)	29,514
Adjustments			
Depreciation of property, plant and equipment	*13*	7,893	7,252
Amortisation of intangible assets	*14*	5,201	4,430
Net finance income		(38,477)	(138,942)
Gain on sale of property, plant and equipment		(499)	(801)
Equity-settled share-based payments	*31*	8,118	10,147
Income tax		2,699	31,215
Change in debt portfolios purchased	*16*	(10,314)	(8,030)
Change in inventories		149	16
Change in trade and other receivables		32,194	156,722
Change in other assets		(40)	268
Change in trade and other payables		(135,732)	561,279
Change in employee benefit obligations		1,526	(2,069)
Change in provisions		(16,768)	-
Income tax paid		(19,185)	(11,039)
Net cash from operating activities		(221,053)	639,962
Cash flows from investing activities			
Interest received		84	164
Loans granted		(40,595)	(61,366)
Sale of intangible assets and property, plant and equipment		1,684	2,914
Dividends received		64,568	46,595
Disposal of financial assets (principal redemptions)		624,219	-
Proceeds from cancellation of shares in subsidiaries		-	190,723
Purchase of intangible assets and property, plant and equipment		(9,350)	(10,700)
Acquisition of shares in subsidiaries		(230,192)	(1,120,290)
Repayment of loans granted		38,902	72,185
Net cash from investing activities		449,321	(879,774)
Cash flows from financing activities			
Net proceeds from issue of shares		6,595	5,318
Proceeds from issue of debt securities		65,000	168,391
Increase in borrowings		769,054	991,884
Repayment of borrowings		(787,710)	(821,532)
Redemption of debt securities		(115,000)	(135,000)
Payments under finance lease contracts		(5,322)	(5,811)
Dividends paid	*22*	(94,040)	(37,488)
Interest paid		(74,611)	(71,968)
Net cash from financing activities		(236,034)	93,794
Total net cash flows		(7,765)	(146,019)
Cash and cash equivalents at beginning of period		16,917	162,936
Cash and cash equivalents at end of period	*20*	9,151	16,917

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

Significant accounting policies and other explanatory notes

Separate financial statements for the year ended December 31st 2018 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 registration: 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 2018 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 2018 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 7th 2019.

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 2018 to December 31st 2018. The comparative data is presented as at December 31st 2017 and for the period from January 1st 2017 to December 31st 2017.

The separate financial statements have been prepared on the following bases of measurement:

- amortized cost determined using the effective interest rate method for:
    - purchased or originated credit impaired assets (less allowance for expected credit losses);
    - financial assets under the business model which purpose is to collect contractual cash flows;
    - other financial liabilities
- fair value for derivative financial instruments.

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 make 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 those 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 estimates concerning the application of accounting policies which most significantly affect the amounts presented in the financial statements:

Item	**Amount estimated**		**Note**	**Assumptions and estimate calculation**
	2018 ***(PLN '000)***	**2017** ***(PLN '000)***		
Investments in subsidiaries	2,194,543	2,849,889	15	Investments in subsidiaries are measured at cost less impairment losses. Investments in subsidiaries for which impairment indications were identified were tested for impairment. As part of the tests, the Company estimated the recoverable amount of the investments based on the value in use of the respective cash-generating units, using the discounted cash flow method. The valuation of investments in subsidiaries is based on a number of assumptions and estimates, in particular with respect to the amount of future cash flows and the adopted discount rate. The projected cash flows of the subsidiaries engaged in management of purchased debt portfolios depend primarily on the assumed consideration for collection services and cost of the collection process. The correctness of the underlying assumptions involves a considerable risk given the significant uncertainty as to the effectiveness of debt collection activities in the future. The discount rate used to test investments in subsidiaries for impairment reflects the current market assessment of the asset risk for the debt collection industry.

Item	Amount estimated		Note	Assumptions and estimate calculation
	2018 *(PLN '000)*	**2017 *(PLN '000)***		
Investments in debt portfolios	178,843	172,297	3.5, 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 based on expected cash flow estimates. The expected cash flows were estimated with the use of comparative and statistical methods (statistical analysis), behavioural methods, or on the basis of legal and economic analysis of individual claims or debtors (case-by-case analysis). The method of estimating cash flows (cash receipts) 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 debt portfolios. 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.
Deferred tax assets/liabilities	453	-15,351	3.15, 17	As the Company is able to control the timing of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). Taxable temporary differences will increase taxable income in the future.

3. Significant accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in these financial statements, except for the changes related to the application of IFRS 9 *Financial Instruments*, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*.
The Company adopted the new IFRS 9 as of its effective date, i.e. January 1st 2018. The effect of application of the classification, measurement and impairment recognition policies 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.

(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 would be measured at amortised cost as of January 1st 2018, as the business model test confirmed rationale for the application 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 granted 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 impact of higher impairment losses on trade and other receivables, which reflect the additional expected future impairment of these assets in accordance with the new standard, amounted to 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 2018
PLN '000

	IAS 39 methodology	IFRS 9 methodology	Note	Jan 1 2018 – restated	Impact of IFRS 9	Dec 31 2017
Assets						
Cash and cash equivalents			21	16,917	-	16,917
Trade receivables from related entities	Loans and receivables	Amortised cost	20	44,819	(388)	45,207
Trade receivables from other entities	Loans and receivables	Amortised cost	20	2,881	-	2,881
Investments	Investments at fair value/Loans and receivables	Amortised cost	17	174,419	2,122	172,297
Other receivables	Loans and receivables	Amortised cost	20	9,276	-	9,276
Inventories			19	171	-	171
Property, plant and equipment			14	19,062	-	19,062
Intangible assets			15	15,183	-	15,183
Investments in subsidiaries			16	2,849,889	-	2,849,889
Hedge derivatives				8,636	-	8,636
Other assets				4,133	-	4,133
Total assets				3,145,388	1,734	3,143,654
Liabilities						
Hedge derivatives			28	1,375	-	1,375
Trade and other payables			27	593,741	-	593,741
Employee benefit obligations			24	17,673	-	17,673
Income tax payable				14,401	-	14,401
Liabilities under borrowings and other debt instruments			23	1,786,487	-	1,786,487
Deferred tax liability			18	15,351	-	15,351
Total liabilities				2,429,028	-	2,429,028
Equity						
Share capital			22	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				311,382	1,734	309,548
Total equity				716,359	1,734	714,625
Total equity and liabilities				3,145,388	1,734	3,143,654

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

The Company performed the SPPI test as required under IFRS 9. Based on the test results presented below, the following were reclassified:

Financial assets	**Cash**	**Trade and other receivables**	**Investments measured at fair value**	**Investments measured at amortised cost**	**Loans granted**	**Loans granted to related entities**
Measurement methodology until Dec 31 2017	**Nominal value**	**Nominal value**	**Fair value**	**Amortised cost**	**Amortised cost**	**Nominal value**
Is the asset an equity investment?	No	No	No	No	No	No
Is the asset held to maturity?	n/a	Yes	Yes	Yes	Yes	Yes
Is the asset held for sale?	Yes	No	No	No	No	No
Are contractual cash flows solely payments of principal and interest?						
- time value of money	n/a	n/a	Yes	Yes	Yes	n/a
- credit risk related to capital	n/a	n/a	Yes	Yes	Yes	n/a
- other elements: coverage of risk, costs (liquidity risk, administrative expenses)	n/a	n/a	Yes	Yes	Yes	n/a
- margin	n/a	n/a	Yes	Yes	Yes	n/a
Is the financial asset held in the 'hold to collect' business model?	No	Yes	Yes	Yes	Yes	Yes
Is the financial asset held in the 'hold to collect and sell' business model?	No	No	No	No	No	No
Measurement method since Jan 1 2018	**Amortised cost (*)**	**Amortised cost (*)**	**Amortised cost**	**Amortised cost**	**Amortised cost**	**Amortised cost**

(*) For cash, trade receivables and other positions – amount presented in amortised cost is consistent with nominal value.

Contractual cash flow characteristics are assessed based a qualitative test carried out to determine if the cash flows generated from the assets are solely payments of principal and interest (SPPI). Interest includes compensation for the time value of money, credit risk associated with the principal amount outstanding at a given time, other basic lending risks and costs, as well as profit margin.
A contractual cash flow characteristic does not affect the classification of the financial asset if:

– it could have only a de minimis effect on the contractual cash flows of the financial asset,
– the cash flow characteristic is not genuine – it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.
To make this determination, the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument must be considered.
The qualitative SPPI test is performed for each financial asset held in the 'hold to collect' (business model whose objective is to hold financial assets to collect contractual cash flows) and 'hold to collect and sell' (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets) business model as at initial recognition of the asset (including for a substantial modification after restatement of the financial asset) and as at the date of change of the contractual cash flow characteristics.

On initial recognition, the entity measures financial assets at fair value plus transaction costs directly attributable to their acquisition.

Trade and other receivables and loans granted without a significant financing component are initially measured at the transaction price (purchase price).

Subsequently, financial assets are measured according to the following categories:

1. Assets measured at amortised cost, including:
    a. purchased debt portfolios,
    b. trade and other receivables,
    c. loans granted to related entities.

Purchased debt portfolios and loans granted are measured at amortised cost in accordance with IFRS 9 if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Assets measured at fair value through other comprehensive income.
3. Assets measured at fair value through profit or loss.

Financial assets at amortised cost

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 if 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 are recognised as financial asset that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flow.

At the Company, recognition of expected losses depends on the change in the level of risk from the moment the receivable arises.

To make that assessment, Kruk compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on the financial asset as at the date of initial recognition considering reasonable and supportable information.
Evidence that financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulties of the issuer or the borrower,
- breach of contract, such as a default or past due event,
- it is becoming probable that the borrower will go bankrupt or will be in position of other financial reorganisation.

With reference to the requirements of IFRS 9, the Company has introduced three main buckets for the recognition of expected losses:

- Bucket 1 – receivables in the case of which there have been no material risk changes from the time of their recognition, understood as an increase in the probability of reclassification into the impaired receivables bucket (Bucket 3). The expected losses on such receivables are recognised for a time horizon of the next 12 months.
- Bucket 2 – receivables in the case of which there has been a material increase in risk since their recognition as identification of receivables have been 180 days past due, but the probability of default has not yet been identified. For such receivables, expected losses are recognised for the remaining life of the asset.
- For such receivables, expected losses are recognised for the remaining life of the asset.
- Bucket 3 – receivables for which impairment indicators have been identified. For such receivables, expected losses are recognised for the remaining life of the asset.

Purchased debt portfolios

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Company under debt assignment agreements. Prices paid by the Company for such debt portfolios are significantly lower than their nominal value (*POCI - Purchased or originated credit impaired assets*).

The Company's business model for purchased debt portfolios consists in holding and managing the portfolios on a long-term basis in order to generate expected cash flows from the portfolios.

All purchased debt portfolios are classified by the Company as measured at amortised cost to better reflect the portfolio management strategy focused on holding an asset with a view to maximising contractual recoveries.

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

The effective interest rate, equal to the internal rate of return, used for discounting estimated cash recoveries is calculated based on initial projections of expected cash recoveries 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 in accordance with ISSF 9 applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. All actual recoveries collected during the period are recognised as a decrease in the portfolio value.

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,
- macroeconomic conditions.

The value of an asset at a reporting date is its initial value (acquisition price plus transaction costs) increased by interest income, decreased by actual recoveries and adjusted to reflect any updates (revisions) of estimates concerning future cash flows. Consequently, the value of an asset at the reporting date is equal to the discounted value of expected cash recoveries.

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 the period.

Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash recoveries for the portfolio are disclosed as revenue earned in the 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 (at amortised cost)

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 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.

Financial assets at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses, as well as foreign exchange gains or losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest rate method is recognised in profit or loss.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; (g)

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If an entity reclassifies a financial asset from the category of assets measured at fair value through other comprehensive income to the category of assets measured at amortised cost, such asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity and adjusted based on the fair value of the financial asset at the reclassification date. Therefore, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. Such adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and expected credit losses are not adjusted as a result of such reclassification.

If an entity reclassifies a financial asset from the category of assets measured at fair value through other comprehensive income to the category of assets measured at fair value through profit or loss, such asset continues to be measured at its fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

If an entity reclassifies a financial asset from the category of assets measured at fair value through profit or loss to the category of assets measured at fair value through other comprehensive income, such asset continues to be measured at its fair value.

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 contracts. 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

Hedge accounting

To apply hedge accounting, the Company is required to meet all the requirements specified below:

- at the time of designation of the hedging relationship, there is formal documentation describing the hedging relationship, the risk management objective, hedging strategy, identification of the hedging instrument and the hedged item or transaction, nature of the hedged risk, and assessment of effectiveness of the hedging relationship;
- the hedge will be highly effective in offsetting changes in cash flows related to the hedged risk, in accordance with the original documentation relating to the particular hedging relationships;
- a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured based on measurement of the cash flows attributable to the hedged item;
- the effectiveness of the hedging relationship is assessed in every reporting period, at least once a quarter.

Discontinuation of hedge accounting

In the cases listed below, the Company discontinues the application of hedge accounting:

- the hedging relationship no longer meets the qualifying criteria for hedge accounting. In such a case, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective continues to be carried as a separate item in revaluation reserve and is released to the statement of profit or loss over the period when the hedged item affects earnings;
- the hedged instrument has expired or has been sold, terminated or settled. As a result, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective continues to be carried as a separate item in revaluation reserve and is released to the statement of profit or loss over the period when the hedged item affects earnings;
- execution of the forecast transaction is no longer highly probable. In such a case, the cumulative gain or loss on the hedging instrument recognised directly in the revaluation reserve in the period in which the hedge was effective, is taken to profit or loss.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability of cash flows that is attributable to a particular risk associated with a recognised asset or liability or with a highly probable future transaction, and could affect profit or loss.

To the extent corresponding to the effective portion of the hedge, changes in fair value of a hedging derivative designated as a cash flow hedge are recognised directly in other comprehensive income. The ineffective portion of the hedge is recognised in profit or loss.

Moreover, any amounts taken directly to the revaluation reserve are transferred to profit or loss in the same period or periods in which the hedged transaction affects profit or loss.

The effectiveness of the hedge is assessed by means of prospective and retrospective effectiveness tests, performed 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.

3.2.1. **Property, plant and equipment**

3.2.2. 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.

3.2.3. 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.

3.2.4. Depreciation

The level of depreciation charges is determined based on acquisition or production cost of a certain asset, less its residual value.
Depreciation cost is recognised in the current period's profit or loss using the straight-line method with respect of the estimated useful economic lives of items of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Assets used under leases 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.

3.3. Investment property

3.3.1. Recognition and measurement

The Company forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held for capital appreciation or to generate future rental income or income from sale of property. The property value is recognised in the statement of financial position after the Group has obtained the rights to dispose of the property i.e. once a final court decision has been issued, and is deducted from the amount of the debtor's debt. 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.

3.4. Intangible assets

3.4.1. 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.

3.4.2. Subsequent expenditure

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.

3.4.3. 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.

3.4.4. Property, plant and equipment used under lease contracts

Lease contracts 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 contracts. Assets acquired under finance lease contracts 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 contracts which are not finance leases are treated as operating leases and not recognised in the statement of financial position.

3.5. Investments

Investments include:

- loans granted to related entities, described in Note 3.2.1,
- debt portfolios measured at amortised cost (for policies applied in the valuation of such portfolios, see Sections 3.2.1 and 3.7.1,
- investment property (for policies applied in the valuation of investment property, see Note 3.3).

3.6. 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.

3.7. Impairment losses on assets

3.7.1. Financial assets

At the end of each reporting period, financial assets other than measured at fair value through profit and loss are tested for impairment based on objective criteria. A financial asset is deemed to be impaired if, after initial recognition, there is objective evidence of the occurrence of an event or events that have an adverse effect on future cash flows from the asset and this effect can be reliably measured.

In the case of receivables and loans granted, such objective evidence of impairment includes default or delay in payment by a debtor; restructuring of the debtor's debt to which the Company has agreed for economic or legal reasons related to the debtor's financial distress and to which the Company would not have agreed to otherwise; circumstances indicating that the debtor or issuer is likely to go bankrupt; disappearance of an active market for the financial asset.

The Company tests for impairment each individual asset of receivables or financial instruments held to maturity.

Recognition and reversal of impairment losses on loans are presented on a net basis in the statement of profit or loss under revaluation of loans.

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.

3.7.2. Non-financial assets

Carrying amount of non-financial assets other than investment property, 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 amounts of intangible assets with indefinite useful lives and intangible assets which are not yet fit for use are estimated at the same time each year.

With regard to investments in subsidiaries, objective impairment indications include losses incurred by a given subsidiary or significant impairment of assets.
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.

In 2018, due to changing market environment, the Company decided that the discount rate for the purposes of the DCF model used in impairment tests of goodwill and assets should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, in calculating the discount rate, the Company used the weighted average cost of capital for the debt collection industry instead of the weighted average cost of the KRUK Group's capital. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets. The other assumptions made for the purposes of those tests remained unchanged.

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 shares in subsidiaries for impairment with respect to cash flows generated by each subsidiary.

Recognition and reversal of impairment losses on investments in subsidiaries are disclosed in the statement of profit or loss under revaluation of investments in subsidiaries.

3.8. Employee benefits

3.8.1. 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.

3.8.2. 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.

3.8.3. 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.

3.9. Liabilities

Provisions are recognised when the Company has a present legal or constructive liability resulting from past events, which can be reliably estimated and which is likely to cause an outflow of economic benefits when discharged. The amount of provision is determined by discounting the projected future cash flows at an interest rate before tax that reflects current market estimates of the time value of money and the risks associated with the liability. The unwinding of the discount is recognised as a finance cost.

3.10. Investments in subsidiaries

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

For information on the policies relating to the recognition of impairment losses on investments in subsidiaries, see Note 3.8.2.

In the case of a non-cash contribution in the form of shares, the Company consistently applies the accounting policy where the shares are measured based on the fair value, and the difference between the fair value and the carrying amount of shares disposed of is recognised in the statement of profit or loss under finance income as gain or loss on disposal of shares in subsidiaries.

3.11. Revenue

3.11.1. Revenue from debt collection

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

Revenue from 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

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash recovery 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 in accordance with regulations applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. All actual recoveries collected 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 recoveries for the portfolio are disclosed as revenue earned in the period.

3.11.2. 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.

3.11.3. 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 granted, calculated using the effective interest rate method, net of impairment.

3.12. 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.

3.13. 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.

3.14. 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 carry forwards, 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.

3.15. 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.

3.16. 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.

Separate financial statements for the year ended December 31st 2018 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

3.17. 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 2018 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.

3.17.1. 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 2019:

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 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 and discloses most leases in the statement of financial position. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position. Rights of use are amortised, and interest is charged on the lease liability. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments.	The Company expects that upon initial application the Standard will have a material effect on its financial statements as it will require recognition in the statement of financial position of assets and liabilities arising from operating leases in which the entity is the lessee. The Company estimates that the effect of the above on the separate statement of	January 1st 2019

	The new standard provides for a number of exemptions with limited applicability, including: • leases with a lease term of 12 months or less and containing no purchase options, and • leases where the underlying asset has a low value. Lessors will continue to classify leases as either operating or finance leases and thus recognise most leases without any changes.	financial position will be PLN 20,175 thousand.	
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 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.	The Company does not expect the Interpretation to have a material effect on its financial statements, because it does not operate in a difficult international tax environment / there are no significant uncertainties related to income tax recognition.	January 1st 2019

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 Standard to have a significant effect on its separate financial statements.	January 1st 2019

3.17.2. 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
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 clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business: • the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not), the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary.	The Company is currently estimating the effect of the new Standard on its separate financial statements.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*
IFRS 17 *Insurance Contracts*	IFRS 17 replaces the transitional IFRS 4 *Insurance Contracts* introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2021

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
	recognised at present value rather than historical cost.		
Amendments to IAS 28 *Investments in Associates and Joint Ventures*	The amendments clarify that entities apply IFRS 9 *Financial Instruments* to investments in associates 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
Annual Improvements to IFRS Standards 2015–2017 Cycle	The Annual Improvements to IFRS Standards 2014–2016 Cycle contain four amendments. The key amendments: • clarify that the entity elects to remeasure an investment in a joint venture when it obtains control of the joint venture in accordance with IFRS 3 *Business Combinations*; • clarify that an entity does not remeasure an investment in a joint venture when it obtains joint control of a joint venture in accordance with IFRS 11 *Joint Arrangements*; • clarify that an entity should always recognise the tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the transaction or event that gave rise to the recognition of the dividend was recognised; (g) • clarify that an entity should derecognise from borrowed funds without a specific purpose those funds specifically borrowed to	The Company does not expect the amendments to have any significant effect 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
	finance the acquisition of a qualifying asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale have been completed; funds borrowed specifically to fund the acquisition of a qualifying asset are not funds borrowed to fund the acquisition of a qualifying asset after the qualifying asset is ready for its intended use or sale.		
Amendments to IAS 19 *Employee Benefits* (Plan Amendment, Curtailment or Settlement)	The amendments to IAS 19 explain how entities recognise expenses when there is a change in a defined benefit plan. The changes require the entity to use current assumptions in the event of a plan amendment, curtailment or settlement in order to determine the current service cost and net interest for the remaining reporting period from the plan amendment date.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2019
Amendments to IFRS 3 *Business Combinations*	The amendments narrow and clarify the definition of a business, and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	1 January 2020
Amendments to IAS 1*Presentation of Financial Statements* and IAS 8	The amendments align and clarify the definition of 'material' and set out guidelines intended to increase the consistency of application of this concept in international financial reporting standards.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	1 January 2020

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 four 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.

Separate financial statements for the year ended December 31st 2018 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Reporting segments

For the financial year ended December 31st 2018

	Poland	Romania	Other foreign markets	TOTAL
Revenue	**75,318**	**39,989**	**4,868**	**120,175**
Purchased debt portfolios	8,460	36,577	1,428	**46,464**
Credit management services	54,918	-	-	**54,918**
Other products	11,940	3,412	3,440	**18,792**
Direct and indirect costs				**(115,204)**
Purchased debt portfolios	-	-	-	**(10,720)**
Credit management services	-	-	-	**(101,599)**
Other products	-	-	-	**(2,885)**
Gross profit (*)				**4,970**
Purchased debt portfolios	-	-	-	**35,744**
Credit management services	-	-	-	**(46,681)**
Other products	-	-	-	**15,908**
Administrative expenses	-	-	-	**(81,751)**
Depreciation and amortisation	-	-	-	**(13,073)**
Other income	**-**	**-**	**-**	**(6,094)**
Other expenses (unallocated)	**-**	**-**	**-**	
Finance income/costs	**-**	**-**	**-**	**40,827**
Profit before tax	**-**	**-**	**-**	**(55,119)**
Income tax	**-**	**-**	**-**	**(2,699)**
Net profit	**-**	**-**	**-**	**(57,818)**
Carrying amount of debt portfolios	**7,765**	**28,917**	**2,117**	**38,800**
Cash recoveries	**7,850**	**34,943**	**1,956**	**44,749**

For the financial year ended December 31st 2017

Separate financial statements for the year ended December 31st 2018 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

	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**
Credit management 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)**
Credit management services	-	-	-	**(97,197)**
Other products	-	-	-	**(2,469)**
Gross profit (*)				**28,991**
Purchased debt portfolios	-	-	-	**33,320**
Credit management services	-	-	-	**(31,538)**
Other products	-	-	-	**27,209**
Administrative expenses	-	-	-	**(79,463)**
Depreciation and 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**
Cash recoveries	**8,639**	**42,385**	**2,264**	**53,288**

(*) Gross profit = operating income - operating expenses.

5. Revenue

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Revenue from debt purchase	46,464	45,054
Income from property	(1,660)	2,331
Revenue from credit management	54,918	65,660
Revenue from other services	19,715	29,030
Revenue from sale of merchandise and materials	738	648
	120,175	142,722

Revenue from debt purchase

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Interest income (*)	20,364	30,809
Other income from debt purchase (**)	6,665	n/a
Revaluation of debt portfolios	19,436	13,665
Foreclosure of property	144	579
	46,609	45,053

(*) In 2017, both interest income and other income from debt purchase were presented under interest income.

(**) Other income from debt purchase – deviations of actual recoveries, decreases on early recoveries in collateralised cases, costs of loyalty scheme valuation, costs of provision for overpayments, payments from original creditor.

Revaluation of debt portfolios

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Revision of recovery projections	18,660	16,210
Change due to change in discount rate	-	(212)
Foreign exchange gains/(losses)	776	(2,332)
	19,436	13,665

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 measured at amortised cost are presented as revenue from debt purchase under operating income.

Revenue from credit management

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main client in the group of non-related entities accounts for 3.7% of revenue from credit management services, and in the group of related entities – for 89% (2017: 2.73% and 62.25% respectively).

6. Other income

PLN '000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Return of compensation for damage caused by motor vehicles		672	753
Gain on sale of property, plant and equipment		499	800
Reversal of impairment losses on receivables	*28*	89	19
Receivables written off		496	-
Other		635	513
		2,391	2,085

7. Services

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Debt collection services	(9,345)	(11,072)
Space rental and service charges	(6,551)	(6,175)
Consultancy services	(3,565)	(5,446)
Postal and courier services	(5,517)	(4,139)
IT services	(4,650)	(3,971)
Other auxiliary services	(2,837)	(2,299)
Communications services	(2,333)	(1,965)
Banking services	(967)	(1,055)
Printing services	(615)	(977)
Repair of vehicles	(721)	(560)
Security	(584)	(555)
Recruitment services	(353)	(489)
Packing services	(334)	(335)
Repair and maintenance services	(132)	(203)
Marketing and management services	(141)	(159)
Transport services	(49)	(54)
Other rental	(36)	(21)
	(38,730)	(39,474)

8. Other expenses

PLN '000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Taxes and charges		(11,596)	(16,427)
Raw materials and consumables used		(5,300)	(6,312)
Advertising		(5,244)	(3,887)
Other		(3,064)	(2,315)
Accumulated amortisation of receivables		(2,954)	(4)
Staff training		(2,333)	(3,375)
Entertainment expenses		(1,888)	(225)
Business trips		(1,766)	(3,493)
Motor insurance		(1,067)	(1,183)
Losses from damage caused by motor vehicles		(758)	(844)
Court fees		(477)	(660)
Re-billed costs of services		(320)	(632)
Non-competition		(260)	(166)
Property insurance		(254)	(242)
Impairment losses on receivables	*28*	-	(46)
		(37,281)	(39,811)

9. Employee benefits expense

	Jan 1 2018 - Dec 31 2018	**Jan 1 2017 - Dec 31 2017**
Salaries and wages	(99,033)	(89,587)
Old-age and disability pension contributions (defined contribution plans)	(15,294)	(12,165)
Equity-settled cost of stock option plan	(8,118)	(10,147)
Other social security contributions	(5,853)	(5,993)
Contribution to the State Fund for the Disabled	(1,130)	(969)
	(129,428)	(118,861)

10. Finance income and costs

Recognised as profit or loss of current period

Finance income

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Dividend income	89,556	192,102
Interest income on loans granted and receivables	5,831	4,986
Interest income on bank deposits	84	164
Revaluation of investments in subsidiaries	29,492	-
Gain/(loss) on disposal of shares in subsidiaries	8,043	96,327
Net foreign exchange losses	-	6,944
	133,006	300,524

Finance costs

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Interest expense on financial liabilities measured at amortised cost	(86,015)	(79,812)
Net foreign exchange losses	(9,506)	-
Interest income/expense on hedging instruments	1,892	3,306
Revaluation of investments in subsidiaries	-	(98,267)
Ineffective portion of remeasurement of hedging instruments	1,450	
	(92,179)	(174,773)
Net finance income recognised in profit or loss	40,827	125,751

Gain or loss on revaluation of investments and loans granted to subsidiaries is recognised in on a net basis in finance income or costs under revaluation of investments.

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 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Total interest income on financial assets	5,915	5,151
Total interest expense on financial liabilities	(84,123)	(76,506)

11.Income tax

Income tax recognised in profit or loss and other comprehensive income for the period

PLN '000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Income tax (current portion recognised in profit or loss)			
Income tax(*)		(17,122)	(21,265)
Income tax (deferred portion recognised in profit or loss)			
Temporary differences/reversal of temporary differences	*17*	14,423	(9,950)
Income tax recognised in profit or loss		(2,699)	(31,215)
Income tax (deferred portion recognised in other comprehensive income)			
Temporary differences/reversal of temporary differences	*17*	-	(1,380)
Income tax recognised in other comprehensive income		-	(1,380)
		(2,699)	(32,595)

(*) Income tax for the reporting period ended December 31st 2017 and income tax adjustment for 2014 of PLN 2,940 thousand.

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

Reconciliation of effective tax rate

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Profit/(loss) before tax	(55,119)	60,729
Income tax recognised in profit or loss	(2,699)	(31,215)
Profit/(loss) before tax for period (assuming 19% tax rate)	(55,119)	60,729
Tax calculated at the tax rate applicable in Poland (19%)	10,473	(11,539)
Effect of non-deductible expenses	(13,172)	(19,677)
	(2,699)	(31,215)

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

As at December 31st 2018
PLN '000

	Note	Dec 31 2018	Dec 31 2017
Assets			
Non-current assets			
Property, plant and equipment		16,169	19,062
Intangible assets		16,547	15,183
Other derivatives		1,450	8,637
Investments in subsidiaries		2,143,481	2,849,889
Total non-current assets		2,178,100	2,892,771
Current assets			
Inventories		22	171
Investments in debt portfolios and loans	*16*	176,905	172,297
Trade receivables from related entities		21,814	45,207
Trade receivables from other entities		2,811	2,881
Other receivables		7,223	9,276
Cash and cash equivalents		9,151	16,917
Other assets		4,173	4,133
Total current assets		222,099	250,883
Total assets		2,400,199	3,143,654
Equity and liabilities			
Equity			
Share capital		18,887	18,808
Share premium		300,097	293,581
Hedging reserve		(3,869)	5,882
Other capital reserves		94,924	86,806
Retained earnings		159,850	309,548
Total equity		569,889	714,625
Non-current liabilities			
Deferred tax liability		-	15,351
Non-current liabilities under borrowings and other debt instruments		1,458,736	1,545,101
Other derivatives		3,870	1,375
Total non-current liabilities		1,462,606	1,561,827
Current liabilities			
Current liabilities under borrowings and other debt instruments		273,262	241,386
Trade and other payables		62,948	593,741
Income tax payable		12,295	14,401
Employee benefit obligations		19,199	17,673
Total current liabilities		367,704	867,201
Total liabilities		1,830,310	2,429,028
Total equity and liabilities		2,400,199	3,143,654

Current and non-current items of the statement of financial position are presented based on contractual cash flows. Investments in debt portfolios are overdue debt claims that the Company presents under current assets.

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 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

	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 2018	746	20,319	20,099	742	-	41,906
Purchase	5	2,289	3,038	147	390	5,869
Sale/ liquidation	(1)	(1,853)	(3,568)	(272)	-	(5,693)
Gross value as at Dec 31 2018	750	20,755	19,569	617	390	42,081

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 2017	(104)	(11,123)	(9,626)	(486)	-	(21,339)
Depreciation	(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**
Accumulated depreciation and impairment losses as at Jan 1 2018	(139)	(12,968)	(9,199)	(537)	-	(22,843)
Depreciation	(37)	(3,395)	(4,408)	(53)	-	(7,893)
Decrease resulting from sale/ liquidation	1	1,847	2,723	253	-	4,823
Accumulated depreciation and impairment losses as at Dec 31 2018	(175)	(14,516)	(10,885)	(337)	-	(25,913)

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 2017	626	5,154	13,894	205	1,140	21,019
As at Dec 31 2017	607	7,351	10,900	204	-	19,062
As at Jan 1 2018	607	7,351	10,900	205	-	19,063
As at Dec 31 2018	575	6,239	8,684	280	390	16,169

Property, plant and equipment used under lease contracts

Under finance lease contracts, the Company uses passenger cars and trucks whose carrying amount as at December 31st 2018 and December 31st 2017 was PLN 8,684 thousand and PLN 8,825 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease contracts (see Note 25).

Property, plant and equipment under construction

As at December 31st 2018 and December 31st 2017, the value of property, plant and equipment under construction was PLN 390 thousand and PLN 0 thousand, respectively.

14. Intangible assets

PLN '000	**Software, licences, permits**	**Other**	**Intangible assets under construction**	**Total**
Gross value of intangible assets				
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
Gross value as at Jan 1 2018	30,547	369	-	30,916
Produced internally	5,714	-	-	5,714
Other increase	743	-	425	1,168
Decrease	(2,339)	-	-	(2,339)
Gross value as at Dec 31 2018	34,664	369	425	35,458
				-

PLN '000	**Software, licences, permits**	**Other**	**Intangible assets under construction**	**Total**
Accumulated amortisation and impairment losses				
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)
Accumulated amortisation and impairment losses as at Jan 1 2018	(15,364)	(369)	-	(15,733)
Amortisation	(5,201)	-	-	(5,201)
Decrease	2,023	-	-	2,023
Accumulated amortisation and impairment losses as at Dec 31 2018	(18,542)	(369)	-	(18,911)

PLN '000	Software, licences, permits	Other	Intangible assets under construction	Total
Net value				
As at Jan 1 2017	13,261	-	-	13,261
As at Dec 31 2017	15,183	-	-	15,183
As at Jan 1 2018	15,183	-	-	15,183
As at Dec 31 2018	16,122	-	425	16,547

15. Investments in subsidiaries

PLN '000	Dec 31 2018	Dec 31 2017
Long-term investments		
Gross value of shares in subsidiaries	2,353,102	3,086,647
Impairment loss on shares	(209,621)	(236,758)
Net value of shares in subsidiaries	2,143,481	2,849,889

PLN '000	Country	Gross value of investment	Impairment loss	Gross value of investment	Impairment loss
		Dec 31 2018		Dec 31 2017	
SeCapital S.à r.l. *	Luxembourg	171,942	-	174,101	-
ERIF Business Solutions Sp. z o.o.	Poland	1,402	(1,302)	1,402	(1,302)
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	-	79,732	-
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	300	-	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	18,500	-	18,500	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	102,578	(86,697)	86,697	(86,697)
Prokura NS FIZ*	Poland	731,983	-	685,796	-
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	5	(22)	6	(20)
InvestCapital Ltd *	Malta	730,661	-	1,612,096	-
RoCapital IFN S.A.*	Romania	13,888	(3,403)	13,888	(4,979)
Kruk Deustschland Gmbh	Germany	65,327	(65,327)	64,877	(55,892)
KRUK Italia S.r.l	Italy	97,599	(50,703)	52,452	(48,843)
ItaCapital S.r.l	Italy	1,766	-	1,114	-
KRUK Espana S.L.	Spain	98,560	-	73,304	(38,975)
ProsperoCapital S.a.r.l.**	Luxembourg	649	-	538	-
PRESCO Investments S.a.r.l	Luxembourg	198,294	-	198,294	-
P.R.E.S.C.O INVESTMENT I NS FIZ*	Poland	-	-	-	-
Elleffe Capital S.r.l.*	Italy	-	-	-	-
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	13,991	-	18,295	-
Corbul S.r.l***	Romania	-	-	-	-
Zielona Perła Sp. z o.o.	Poland	6,454	(2,117)	-	-
AgeCredit S.r.l.	Italy	14,216	-	-	-
		2,353,102	**(209,621)**	**3,086,647**	**(236,758)**

(*) Subsidiaries in which the Company indirectly holds 100% of the share capital.
(**) ProsperoCapital S.a.r.l is a party to a joint arrangement.
(***) The Parent controls the company through a personal link.

On April 16th 2018, the Company acquired control of AgeCredit S.r.l. of Cesena, Italy, by entering into an agreement to buy a 51% interest in the company. The agreement envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, the Company purchased the remaining 49% of shares in AgeCredit S.r.l., thus acquiring in total 100% of the company shares, and registered the acquisition. AgeCredit is a credit management company operating in Italy.

In 2018, the Company tested its investments in subsidiaries for impairment. As a result, impairment losses were reversed on the following investments:

- Kruk Espana S.L – PLN 38,973 thousand

- Rocapital IFN S.A. – PLN 1,576 thousand

In the case of Kruk Italia S.r.l., Kruk Deutschland Gmbh and Zielona Perła Sp. z o.o., the Company recognised impairment losses of PLN 1,860 thousand, PLN 9,435 thousand and PLN 2,117 thousand, respectively.

		Shareholding (%)	
PLN '000	**Country**	**Dec 31 2018**	**Dec 31 2017**
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%
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%
InvestCapital Ltd *	Malta	100%	100%
RoCapital IFN S.A.*	Romania	100%	100%
Kruk Deutschland 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.a.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%
Elleffe Capital S.r.l.*	Italy	100%	100%
BISON NS FIZ*	Poland	100%	100%
Corbul S.r.l***	Romania	-	-
Zielona Perła Sp. z o.o.	Poland	100%	-
AgeCredit S.r.l.	Italy	100%	-

(*) Subsidiaries in which the Company indirectly holds 100% of the share capital.
(**) ProsperoCapital S.a.r.l is a party to a joint arrangement.
(***) The Parent controls the company through a personal link.

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2018 and for the period from January 1st to December 31st 2018.

In 2018, the Parent made additional contributions to the equity of the subsidiary KRUK Deustchland Gmbh totalling PLN 450 thousand.

In 2018, the Parent made additional contributions to the equity of the subsidiary KRUK Italy S.r.l totalling PLN 45,146 thousand.

In 2018, the Parent made additional contributions to the equity of the subsidiary KRUK Espania S.r.l totalling PLN 25,256 thousand.

In 2018, the Parent reduced the share capital of the subsidiary Secapital S.a.r.l. by PLN 2,159 thousand.

In 2018, the Parent decreased the share capital of the subsidiary InvestCapital Ltd. by PLN 881,435 thousand.

In 2018, the Parent issued certificates of the subsidiary PROKURA NS FIZ totalling PLN 46,187 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 cash-generating 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, AgeCredit, the credit management business (debt collection services for related and unrelated entities) was identified as the cash-generating unit. In the case of Kruk Romania, 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. In case of RoCapital – lending activity on the Romanian market. 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 for the debt collection industry (weighted average cost of capital as at December 31st 2018: 7,34%). The residual value was calculated using a growth rate equal to the average projected inflation rate during the forecast period in the range of 1,57% - 2,63% for the relevant country.

In the reporting year 2018, due to changing market environment, the Company decided that the discount rate for the purposes of the DCF model used in impairment tests of goodwill and assets should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, in calculating the discount rate, the Company used the weighted average cost of capital for the debt collection industry instead of the weighted average cost of the KRUK Group's capital. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets. Except cash flows, the other assumptions made for the purposes of those tests remained unchanged.

16. Investments

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Investments		
Financial assets at fair value through profit or loss	-	33,334
Financial assets at amortised cost	38,800	1,140
Investment property	27,238	23,239
Loans granted to related entities	110,867	114,584
	176,905	172,297

Debt portfolios

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Purchased debt portfolios		
Unsecured portfolios	38,800	34,474
	38,800	34,474

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

	Dec 31 2018	**Restated IFRS 9 Jan 1 2018**	**Dec 31 2017**
Discount rate			
- risk-free**			0.012% - 3.54%
- risk premium*	19.67% - 170.19%	19.67% - 170.19%	5.77% - 134.29%
Period for which recoveries have been estimated	Jan 2019–Sep 2031	Jan 2018–Dec 2027	Jan 2018–Dec 2027
Nominal value of expected future recoveries	83,275	70,682	70,682

** Applicable to 99% of debt portfolios.*
*** For debt portfolios measured at amortised cost.*

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Period		
Up to 12 months	31,652	32,467
From 1 to 2 years	20,840	18,258
From 2 to 5 years	25,898	17,683
Over 5 years	4,885	2,274
	83,275	70,682

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 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 the value of debt portfolios.

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

PLN '000	
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 Dec 31 2017	**34,474**
Value of purchased debt portfolios as at Dec 31 2017	**34,474**
Impact of changes in accounting policies following application of IFRS 9	2,226
Value of purchased debt portfolios as at Jan 1 2018	36,700
Cash recoveries	(44,653)
Revenue from debt purchase (interest and revaluation)	46,609
Foreclosure of property	144
Value of purchased debt portfolios as at Dec 31 2018	**38,800**

As part of its operating activities, KRUK S.A. forecloses properties securing acquired debt. A portion of recoveries is derived from the sale of such properties on the open market.

Investment property

Value of property held as at Jan 1 2018	**23,869**
Value of foreclosed property	17,240
Proceeds from sale of property	(12,118)
Income from sale of property	(1,753)
Value of property held as at Dec 31 2018	**27,238**

Loans granted to related entities

As at December 31st 2018, the gross value of loans granted to related entities was PLN 123,661 thousand, and the impairment loss was PLN 10,855 thousand (December 31st 2017: PLN 129,347 thousand and PLN 14,763 thousand, respectively).

For information on the Company's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses on loans granted and investments held to maturity, see Note 28.

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 2018				
Investments in debt portfolios	483	(483)	-	-
Dec 31 2017				
Investments in debt portfolios	346	(346)	-	-

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 2018				
Investments in debt portfolios	5	(13)	-	-
Dec 31 2017				
Investments in debt portfolios	-	(1)	-	-

The sensitivity analysis presented below assumes extension or shortening of the projection period with a simultaneous increase or decrease in the recovery projections (in the case of extension by one year, projected recoveries increased by PLN 88 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 167 thousand; for 2017 PLN 23 thousand and PLN 56 thousand, respectively).

Separate financial statements for the year ended December 31st 2018 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

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:

	Dec 31 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017
Property, plant and equipment	1,321	1,677	(1,574)	(1,971)	(253)	(294)
Intangible assets	-	-	(2,627)	(2,395)	(2,627)	(2,395)
Trade and other receivables	-	-	(142)	(289)	(142)	(289)
Liabilities under borrowings and other debt instruments	10,684	2,005	-	-	10,684	2,005
Employee benefit obligations	2,001	1,962	-	-	2,001	1,962
Provisions and liabilities	2,265	122	-	-	2,265	122
Investments in debt portfolios	-	-	(6,282)	(4,322)	(6,282)	(4,322)
Investments in subsidiaries	-	-	(5,194)	(10,760)	(5,194)	(10,760)
Hedge derivatives	-	-	-	(1,380)	-	(1,380)
Deferred tax assets/liabilities	16,272	5,766	(15,819)	(21,117)	453	(15,351)
Deferred tax assets offset against liabilities	(15,819)	(5,766)	15,819	5,766	-	-
Deferred tax assets/liabilities in the statement of financial position	453	-	-	(15,351)	453	(15,351)

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 and it is probable that the temporary differences will not reverse in the foreseeable future.

Change in temporary differences in the period

PLN '000	As at Jan 1 2017	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2017	As at Jan 1 2018	Change in temporary differences recognised in profit or loss for current period	As at Jan 1 2018
Property, plant and equipment	(225)	(69)	(294)	(294)	41	(253)
Intangible assets	(2,033)	(362)	(2,395)	(2,395)	(232)	(2,627)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Trade and other receivables	-	(289)	(289)	(289)	147	(142)
Liabilities under borrowings and other debt instruments	(2,747)	4,752	2,005	2,005	8,679	10,684
Employee benefit obligations	1,428	533	1,962	1,962	39	2,001
Provisions and liabilities	2,634	(2,512)	122	122	2,143	2,265
Investments in debt portfolios	497	(4,818)	(4,322)	(4,322)	(1,960)	(6,282)
Investments in subsidiaries	(3,571)	(7,189)	(10,760)	(10,760)	5,566	(5,194)
	(4,018)	(9,954)	(13,971)	(13,971)	14,424	453

PLN '000	As at Jan 1 2017	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2017	As at Jan 1 2018	Change in temporary differences recognised in other comprehensive income	As at Jan 1 2018
Hedge derivatives	-	(1,380)	(1,380)	(1,380)	1,380	-
	-	(1,380)	(1,380)	(1,380)	1,380	-

18. Inventories

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Materials	52	62
Prepaid deliveries	(30)	109
	22	171

In the reporting period ended December 31st 2018, the Company did not recognise any write-downs on inventories.

19. Trade and other receivables

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Trade receivables from related entities	21,814	45,207
Trade receivables from non-related entities	2,811	2,881
	24,625	48,088

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Other receivables from related entities	1,486	3,150
Other receivables from non-related entities	5,737	6,126
	7,223	9,276

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 2018**	**Dec 31 2017**
Cash in hand	19	45
Cash in current accounts	9,132	16,872
	9,151	16,917

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

	Ordinary shares	
	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
'000		
Number of shares as at Jan 1	18,808	18,744
Issue of shares	79	64
Number of fully-paid shares at end of period	18,887	18,808

The Company's shareholding structure as at December 31st 2018

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Piotr Krupa	1,931,666	1,932	10.23%
NN PTE (*)	2,000,000	2,000	10.59%
Aviva OFE	1,319,000	1,319	6.98%
Other members of the Management Board	222,442	222	1.18%
Other shareholders	13,413,753	13,414	71.02%
	18,886,861	18,887	100%

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

As at December 31st 2018, the registered share capital was divided into 18,887 thousand ordinary shares (December 31st 2017: 18,808 thousand).

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 Incentive Scheme").

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011−2014 Plan 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 Plan, 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 increase of the Company's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an annualised average basis, by no less than 13% relative to the base year.

Details of the 2015−2019 Incentive 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 Plan 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 other than Management Board members. On October 27th 2016, 20,000 subscription warrants were delivered to Eligible Persons who were Management Board members.

By the issue date of this Report, 77,964 warrants issued in Tranche 1 were converted into newly issued Series F shares in the Company. Thus, 28,471 Tranche 1 Warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 13,500 of those Warrants are held by 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 other than Management Board members.

On August 27th 2017, 50,480 subscription warrants were delivered to eligible persons who were Management Board members.
By the issue date of this Report, 64,681 Tranche 2 warrants were converted into newly issued Series F shares in the Company. 77,266 Tranche 2 Subscription Warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 50,480 of those Warrants are held by Management Board members.

(PLN '000)

Tranche 3

By way of a resolution dated May 11th 2018, the Supervisory Board declared that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 3 for 2017 had been met.
On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Plan. On this basis, on June 20th 2018, the Management Board invited eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to the Eligible Persons on July 3rd 2018.

On September 11th 2018, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 3 Subscription Warrants for 2017 under the 2015−2019 Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015−2019 Plan. On September 17th 2018, 54,344 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 Plan, see Note 31.

Number of options	Dec 31 2018	Dec 31 2017
Number of options priced under the 2015−2019 Plan at the beginning of the reporting period*:	784,229	731,162
Number of options priced under the 2015−2019 Plan during the reporting period*:	33,979	53,067
Number of options priced under the 2015−2019 Plan at the end of the reporting period*:	818,208	784,229
Number of options forfeited under the 2015−2019 Plan during the reporting period**:	19,308	9,251
Number of options exercised under the 2015−2019 Plan during the reporting period:	78,961	63,684
Number of options exercisable under the 2015−2019 Plan at the end of the reporting period:	105,737	42,751
Issue price of options in the 2015-2019 Plan	**83.52**	**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 2018, basic earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN -57,818 thousand (2017: PLN 29,514 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,843 thousand (2017: 18,748 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Net profit for period	(57,818)	29,514
Net profit attributable to owners of the Company	(57,818)	29,514

Weighted average number of ordinary shares

'000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Number of ordinary shares as at Jan 1	18,808	18,744
Effect of cancellation and issue of shares	35	4
Weighted average number of ordinary shares in period ended Dec 31	18,843	18,748
PLN		
Earnings per share	(3.07)	1.57

Consolidated net profit attributable to owners of the Parent

As at December 31st 2018, basic consolidated earnings per share were calculated based on consolidated net profit attributable to owners of the Parent (holding ordinary shares) of PLN 330,016 thousand (2017: PLN 295,095 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,843 thousand (2017: 18,748 thousand). The amounts were determined as follows:

Consolidated net profit attributable to owners of the Parent

PLN '000	Jan 1 2018 - Dec 31 2018	Jan 1 2017 - Dec 31 2017
Net profit attributable to owners of the Parent (basic)	330,016	295,095
Separate net profit attributable to owners of the Company (diluted)	330,016	295,095

Weighted average number of ordinary shares

'000	***Note***	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Number of ordinary shares as at Jan 1	*22*	18,808	18,744
Effect of cancellation and issue		35	4
Weighted average number of ordinary shares in period ended Dec 31		18,843	18,748
PLN			
Earnings per share		17.51	15.74

Dividend per share paid

PLN '000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Dividend paid from profit and retained earnings	94,040	37,488
PLN		
Dividend per share	5.00	2.00

Diluted separate earnings per share

As at December 31st 2018, diluted earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN -57,818 thousand (2017: PLN 29,514 thousand) and the weighted average diluted number of shares in the period covered by these financial statements of 19,308 thousand (2017: 19,275 thousand). The amounts were determined as follows:

'000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Number of ordinary shares as at Jan 1	18,843	18,748
Effect of cancellation and issue of shares	465	527
Weighted average number of ordinary shares in period ended Dec 31	19,308	19,275
PLN		
Earnings per share	(2.99)	1.54

Diluted consolidated earnings per share

As at December 31st 2018, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 330,016 thousand and the weighted average number of shares in the period covered by the financial statements of 19,308 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	**Jan 1 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Weighted average number of ordinary shares in period ended Dec 31	18,843	18,748
Effect of issue of unregistered shares not subscribed for	465	527
Weighted average number of ordinary shares in period ended Dec 31 (diluted)	19,308	19,275
PLN		
Earnings per share	17.09	15.31

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 23.

Terms and repayment schedule of borrowings and other debt instruments

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Non-current liabilities		
Secured borrowings	315,341	263,828
Liabilities under debt securities (unsecured)	1,142,905	1,276,772
Finance lease liabilities	490	4,500
	1,458,736	1,545,101
Current liabilities		
Short-term portion of secured borrowings	49,832	115,571
Liabilities under debt securities (unsecured)	216,966	121,491
Short-term portion of finance lease liabilities	6,464	4,324
	273,262	241,386

Liabilities repayment schedule

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2018**	**Dec 31 2017**
Borrowings secured over the Company's assets	EUR/PLN	1M WIBOR + margin of 1.0–1.8 pp; 1M WIBOR + margin of 2.2–2.4 pp	2024	365,173	379,399
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.5–3.5 pp	2023	1,359,871	1,398,263
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.1–3.9 pp	2022	6,954	8,825
				1,731,998	1,785,487

Security over assets

Security over assets *PLN '000*	**Dec 31 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.	165,346	687,033
Property, plant and equipment under finance leases	8,681	8,825
	174,027	695,858

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

24. Other derivatives

It has been concluded that effective implementation of the Company'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:

- the Company's objectives in terms of interest rate risk,
- interest rate risk monitoring methods;
- the Company's permissible exposure to the interest rate risk,
- procedures in case of exceeding the Company's permissible exposure to the interest rate risk,
- interest rate risk management rules of the Company,
- The Company applies two types of hedging strategies, as described below.

In 2017, the Company executed hedging derivative transactions as described below.
In 2017, the Company entered into two foreign currency interest rate swaps (CIRS), under which the Company pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The contracts hedge both currency risk and interest rate risk as they effectively change the debt contracted in the złoty with euro-denominated liabilities:

First contract: The Company pays at a fixed rate of 3.06%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).
Second contract: The Company pays at a fixed rate of 2.97%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates (hedging a part of the coupon on PLN 90m worth of Series AA1 bonds and on PLN 100m worth of Series Z1 bonds) and by assets denominated in a convertible currency due to interest rate fluctuations (hedging of EUR-denominated cash flows from investments in subsidiaries).

The Company expects cash flows to be generated and to have an effect on its performance in the period until 2021.
In 2018, due to the ineffectiveness of the hedging relationship, the valuation was written off to the statement of profit or loss.

In addition, in 2017 the Company entered into two interest rate swaps (IRS) under which it pays a coupon based on a fixed PLN interest rate and receives a coupon based on a variable PLN interest rate. The contracts provide a hedge against interest rate risk.

First contract: The Company pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).

Second contract: The Company pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).
The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates (hedging the coupon on PLN 150m worth of Series AA2 bonds and on PLN 50m worth of Series AC1 bonds).

The Company expects cash flows to be generated and to have an effect on its performance in the period until 2022.

PLN '000

Carrying amount/fair value of derivatives

	Dec 31 2018		Change in fair value		Dec 31 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Instrument type:						
CIRS	1,450	-	(7,187)	-	8,637	-
IRS	-	3,870	-	2,495	-	1,375
	1,450	3,870	(7,187)	2,495	8,637	1,375

	Nominal value as at Dec 31 2018				
	Below 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	200,000	-
floating payment PLN	-	-	-	200,000	-

	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 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Other comprehensive income at beginning of period, before tax	5,882	-
Gains/(losses) recognised in other comprehensive income during period	(10,962)	10,298
Amount reclassified from other comprehensive income to profit or loss during period	169	3,036
Interest income	1,554	3,036
Ineffective portion of cash flow hedges recognised in profit or loss	(1,385)	-
Accumulated other comprehensive income at end of period, before tax	(5,249)	7,262
Tax effect	1,380	(1,380)
Accumulated other comprehensive income at end of period, net of tax	(3,869)	5,882
Effect on other comprehensive income (before tax) during period	(11,131)	7,262
Deferred tax on cash flow hedges	1,380	(1,380)
Effect on other comprehensive income during period, net of tax	(9,751)	5,882

25. Employee benefit obligations

PLN '000	**Dec 31 2018**	**Dec 31 2017**
Salaries and wages payable	6,352	5,925
Social benefit obligations	5,939	5,086
Personal income tax	1,760	1,493
Accrued holidays	4,734	4,798
Accrued salaries and wages (bonuses)	250	206
Accrued retirement severance payments	124	124
Special accounts	40	41
	19,199	17,673

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2017	3,800
Increase	4,914
Use	(3,916)
Value as at Dec 31 2017	4,798
Value as at Jan 1 2018	4,798
Increase	4,726
Use	(4,790)
Value as at Dec 31 2018	4,734

Separate financial statements for the year ended December 31st 2018 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2017	4,940
Increase	206
Use	(4,940)
Release	-
Value as at Dec 31 2017	206
Value as at Jan 1 2018	206
Increase	3,214
Use	(3,170)
Release	-
Value as at Dec 31 2018	250

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 companies.

27. Trade and other payables

Current liabilities *PLN '000*	**Dec 31 2018**	**Dec 31 2017**
Trade and other payables to related entities	26,958	546,642
Trade payables to other entities	18,454	26,156
Deferred income	12,687	12,551
Taxes, customs duties, insurance and other benefits payable	1,728	199
Accrued expenses	771	4,566
Other liabilities	2,350	3,627
	62,948	593,741

The decrease in trade and other payables to related entities is attributable to the accounting for the last year's acquisition of shares in subsidiaries by the Company.

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.

28.1. 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 granted by the Company, receivables for the services provided by the Company 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 3.7% of the Company's revenue (2017: 2.13%), and the respective percentages for the Company's related entities are 89% and 62.25%. Receivables from the Company's largest trading partner among its non-related entities accounted for 7.6% of total gross trade receivables as at December 31st 2018 (Dec 31 2017: 6.58%); and in the case of related entities the percentages were 25% and 18.5%, 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.

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

Guarantees

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

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	**Dec 31 2018**	**Dec 31 2017**
Financial instruments at fair value through profit or loss	*16*	-	33,334
Financial assets at amortised cost	*16*	38,800	1,140
Loans	*16*	110,867	114,584
Receivables	*19*	31,848	57,365
		181,515	206,422

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

PLN '000

	Dec 31 2018	**Dec 31 2017**
Poland	53,156	63,661
Romania	107,629	107,620
The Czech Republic and Slovakia	20,730	35,141
	181,515	206,422

Impairment losses

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

IFRS 9 classification	Value as at Dec 31 2018 (IFRS 9)	Value as at Dec 31 2017 (IAS 39)
Bucket 1	31,849	n/a
Bucket 2	873	n/a
Bucket 3	-	n/a
	32,722	60,234
Bucket 1	-	n/a
Bucket 2	873	n/a
Bucket 3	-	n/a
	873	2,869

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1 2018 – Dec 31 2018	Jan 1 2017 - Dec 31 2017
Impairment loss as at Jan 1	2,869	2,842
Impairment loss recognised in period	6	46
Reversal of impairment loss	(95)	(19)
Use of impairment loss	(1,907)	-
Impairment loss as at Dec 31	**873**	**2,869**

Based on historical payment data, the Company recognises impairment losses which represent its estimates of expected losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.
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 2018−2017, the Company did not recognise any general impairment losses on receivables.

28.2. Liquidity risk

Liquidity risk is the risk of the Company's failure to pay its liabilities when due.

Liquidity risk management aims to ensure that the Company has sufficient liquidity to pay its liabilities as they fall due, without exposing the Company to a risk of loss or impairment of its reputation.

The key objectives of liquidity management is protection of the Company against the loss of ability to pay its liabilities.

The Company has a liquidity management policy in place, which includes rules for contracting debt finance, preparing analyses and projections of the Company's liquidity, and monitoring the performance of obligations under credit facility agreements.

The Company's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected level of recoveries from debt portfolios.

In accordance with the liquidity management policy adopted by the Company valid as at the day of publication of separate financial statement, the following conditions must be met by the Company before new debt can be incurred:

- the debt can be repaid from the Company's own assets,
- incurring the debt will not result in exceeding the financial covenants stipulated in facility agreements and terms and conditions of bonds.

Below are presented the contractual terms of financial liabilities:

As at December 31st 2018
PLN '000

Non-derivative financial assets and liabilities	**Present value**	**Contractual cash flows**	**Less than 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Investments in debt portfolios	38,800	83,275	17,546	14,106	20,840	25,898	4,885
Secured borrowings	(365,173)	(386,816)	(16,044)	(19,346)	(38,173)	(111,392)	(201,859)
Unsecured bonds in issue	(1,359,871)	(1,465,773)	(82,630)	(121,273)	(142,325)	(1,119,545)	-
Finance lease liabilities	(6,954)	(7,501)	(2,322)	(1,628)	(2,249)	(1,302)	-
Trade and other payables	(62,948)	(62,948)	(62,948)	-	-	-	-
	(1,756,146)	(1,839,762)	(147,398)	(128,142)	(162,907)	(1,206,342)	(196,974)

As at December 31st 2017
PLN '000

	Present value	**Contractual cash flows**	**less than 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)	(4,913)	-
Trade and other payables	(593,741)	(593,741)	(593,741)	-	-	-	-
	(2,345,754)	(2,545,537)	(636,011)	(124,873)	(212,294)	(1,579,056)	2,274

Contractual cash flows were determined based on interest rates effective as at December 31st 2017 and December 31st 2018, 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 140,939 thousand (2017: PLN 111.728 thousand). The limit is available until December 19th 2023.

28.3. Market risk

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

It has been concluded that effective implementation of the Company'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:

- the Company's objectives in terms of interest rate risk,
- interest rate risk monitoring methods,
- the Company's acceptable exposure to interest rate risk,
- procedures in case of exceeding acceptable exposure to the interest rate risk,
- interest rate risk management rules of the Company,
- the Company applies two types of hedging strategies.

The currency risk management policy covers the following:

- the Company's currency risk management objectives,
- key rules of currency risk management at the Company,
- acceptable impact of currency risk on the Company's profit or loss and equity (currency risk appetite),
- methods of measuring and monitoring currency risk and currency risk exposure,
- procedures to be followed in the case of exceeding permitted currency risk appetite and specified currency risk limits,
- currency risk hedging policies,
- roles and responsibilities in the currency risk management process.

As at December 31st 2018, assets denominated in foreign currencies accounted for 1.44% of total assets, while liabilities denominated in foreign currencies represented 18% of total equity and liabilities (December 31st 2017: 1.15% and 7.9%, respectively).

Cach recoveries in foreign currencies are reinvested to purchase debt portfolios in the same currency.

28.4. 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 2018			Dec 31 2017	
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	-	-	-	84	1,335	15
Cash	37	4,744	2,271	28	7,192	393
Financial assets at fair value through profit or loss	-	-	-	323	24,288	1,879
Financial assets at amortised cost	283	28,627	1,833	-	1,140	-
Liabilities under borrowings and other debt instruments	(346,396)	-	-	(250,213)	(9)	-
Trade payables		-	-	(185)	(750)	(64)
Exposure to currency risk	(346,075)	33,371	4,104	(249,963)	33,196	2,223

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 2018 - Dec 31 2018	**Jan 1 2017 - Dec 31 2017**	**Dec 31 2018**	**Dec 31 2017**
EUR 1	4.2669	4.2447	4.3000	4.1709
USD 1	3.6227	3.7439	3.7597	3.4813
RON 1	0.9165	0.9282	0.9229	0.8953
CZK 1	0.1663	0.1614	0.1673	0.1632
HUF 100	1.3339	1.3723	1.3394	1.3449

As at December 31st 2018, 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 2018		
EUR (10% appreciation of PLN)	-	34,608
RON (10% appreciation of PLN)	-	(3,337)
CZK (10% appreciation of PLN)	-	(410)
Dec 31 2017		
EUR (10% appreciation of PLN)	-	24,996
RON (10% appreciation of PLN)	-	(3,320)
CZK (10% appreciation of PLN)	-	(222)

Interest rate risk

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

PLN '000	**Carrying amount**	
	Dec 31 2018	**Dec 31 2017**
Fixed-rate financial instruments		
Financial assets	38,800	58,505
Financial liabilities	(326,296)	(865,628)
	(287,496)	(807,123)
Risk mitigation effect	(200,000)	(390,000)
	(487,496)	(1,197,123)
Variable-rate financial instruments		
Financial assets	110,867	147,918
Financial liabilities	(1,468,650)	(1,514,601)
	(1,357,783)	(1,366,683)
Risk mitigation effect	200,000	390,000
	(1,157,783)	(976,683)

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 2018				
Variable rate financial assets	1,109	(1,109)	-	-
Variable rate financial liabilities	(14,687)	14,687	-	-
Dec 31 2017				
Variable rate financial assets	222	(217)	-	-
Variable rate financial liabilities	(22,177)	22,177	-	-

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 2018**		**Dec 31 2017**	
	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
Other derivatives	(6,290)	(6,290)	7,261	7,261
	(6,290)	(6,290)	40,595	40,595
Financial assets and liabilities not measured at fair value				
Financial assets at amortised cost	38,800	36,077	1,140	1,018
Investment property	27,238	27,238	23,239	23,239
Loans and receivables	110,867	110,867	114,584	114,584
Secured bank borrowings	(365,173)	(365,173)	(379,399)	(379,399)
Unsecured bonds in issue	(1,359,871)	(1,369,712)	(1,398,263)	(1,374,306)
Finance lease liabilities	(6,954)	(6,954)	(8,825)	(8,825)
Trade and other payables	(62,948)	(62,948)	(593,741)	(593,741)
	(1,618,041)	(1,630,605)	(2,241,265)	(2,217,430)

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 2014−2018, no transfers were made between the levels.

	Dec 31 2018	**Dec 31 2017**
Financial assets at amortised cost	19.67% - 170.19%	5.77% - 134.29%
Borrowings	1.84% - 3.44%	1.83%-3,65%
Unsecured bonds in issue	4.22% - 5.22%	4.23%-6,33%
Finance lease liabilities	1.09% - 3.90%	1.39%-3,58%

PLN '000	**Level 3**
As at Dec 31 2017	
Financial assets at fair value through profit or loss	33,334
Financial assets at amortised cost	1,018
As at Dec 31 2018	
Financial assets at fair value through profit or loss	-
Financial assets at amortised cost	38,800

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 leases

Operating lease contracts with the Company as a lessee

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

PLN '000	**Dec 31 2018**	**Dec 31 2017**
up to 1 year	5,429	6,061
from 1 to 5 years	12,027	19,181
	17,456	25,242

Material operating lease contracts 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 2018 - Dec 31 2018**	**Jan 1 2017 - Dec 31 2017**
Base pay/ managerial contract (gross)	6,599	5,559
Provision for employee bonuses for current year	250	206
Share based payments	8,118	4,119
	14,967	9,884

Other related-party transactions

As at December 31st 2018, 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 2017: 11.62%).

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 granted**	**Interest accrued on loans granted**
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 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 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
	459
	10,167

Transactions with subsidiaries as at and for the period ended December 31st 2018

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

PLN '000	Liabilities	Receivables	Loans granted	Interest accrued on loans granted
SeCapital S.à. r.l	6,483	1,507	-	-
ERIF Business Solutions Sp. z o.o.	-	171	-	-
Novum Finance Sp. z o.o.	-	383	20,842	1
SeCapital Polska Sp. z o.o.	-	1	107	-
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	2,328	2,470	-	-
KRUK Romania S.r.l	(146)	5,860	66,582	1,006
ERIF BIG S.A.	-	84	-	-
NSFIZ PROKURA	3,430	7,110	-	-
KRUK Česká a Slovenská republika s.r.o.	(29)	1,529	18,901	55
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	5,475	-	-
InvestCapital Ltd.	-	(2,472)	-	-
KRUK Deutschland GmbH	-	376	-	-
KRUK Deutschland (Branch)	-	125	-	-
Rocapital IFN S.A.	-	6	4,603	57
KRUK Italia S.r.l	4	324	-	-
ItaCapital S.r.l	-	103	-	-
KRUK Espana S.L.	-	253	-	-
Presco Investments S.a.r.l.	14,889	514	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	58	-	-
NSFIZ BISON	-	(590)	-	-
ProsperoCapital Sp. z.o.o. (in liquidation)	-	-	-	-
Corbul Capital S.r.l	-	-	-	-
ProsperoCapital S.à r.l.	-	2	-	-
Elleffe Capital S.r.l.	-	5	-	-
Zielona Perła Sp. z o.o.	-	1	-	-
AgeCredit S.r.l.	2	71	647	4
	26,961	23,366	111,682	1,123

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	-	381	31,068
ERIF Business Solutions Sp. z o.o.	98	-	48
Novum Finance Sp. z o.o.	706	1,064	1,054
SeCapital Polska Sp. z o.o.	11	-	4
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	3,885	-	1,988
KRUK Romania S.r.l	3,387	-	3,684
ERIF BIG S.A.	935	-	-
NSFIZ PROKURA	-	-	-
KRUK Česká a Slovenská republika s.r.o.	(330)	-	904
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	116	49,708	-
InvestCapital Ltd.	9,706	-	-
KRUK Deutschland GmbH	941	-	-
KRUK Deutschland (Branch)	198	-	-
Rocapital IFN S.A.	-	-	134
ProsperoCapital Sp. z.o.o. (in liquidation)	-	-	-
KRUK Italia S.r.l	938	-	-
ItaCapital S.r.l	391	-	-
KRUK Espana S.L.	694	-	-
Presco Investments S.a.r.l.	-	(6,868)	56,498
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
NSFIZ BISON	-	-	-
Corbul Capital S.r.l	-	-	-
ProsperoCapital S.à r.l.	-	-	-
Elleffe Capital S.r.l.	-	-	-
Zielona Perła Sp. z o.o.	12	-	-
AgeCredit S.r.l.	-	-	5
	21,688	44,285	95,387

Costs of mutual transactions

PLN '000	**Purchase of services**
ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	951
KRUK Romania S.r.l	6,171
ERIF BIG S.A.	271
KRUK Česká a Slovenská republika s.r.o.	394
	7,788

31. Share-based payments

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
Dec 31 2018	8,118
Total	54,923

The management stock option plans are described in Note 21.

32. Auditor's fees

PLN '000	Dec 31 2018	Dec 31 2017
Audit of financial statements	1,227	1,053
Other assurance services, including review of financial statements	433	408
	1,660	1,461

(PLN '000)

33. Contingent liabilities and security created over the Company's assets

Security created over KRUK S.A.'s assets is presented below:

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards Santander Bank S.A. under the credit facility granted to Prokura NS FIZ	Santander Bank 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 210m	Until July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Santander Bank 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

(PLN '000)

Surety for InvestCapital LTD's liabilities under the transactions executed under the framework agreement between KRUK S.A., InvestCapital LTD and Santander Bank S.A.	Santander Bank S.A.	PLN 162.40m	Until October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the framework agreement on the procedure for execution and settlement of treasury transactions
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
Guarantee issued by BZ WBK S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 282,872.29 and PLN 190,030.02	Until December 30th 2019	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	Until December 30th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Corporate guarantee provided by Kruk S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 20m	Until March 12th 2019	The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation at InvestCapital Ltd., effected on November 26th 2018

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 BISON NS FIZ exceed PLN 60,000 thousand, KRUK S. A. will be obliged to pay compensation to the original owner of the investment certificates. The compensation will be computed as 40% of the amounts recovered in excess of PLN 60,000 thousand.

34. Events subsequent to the reporting date

On January 14th 2019, the Management Board of KRUK S.A. passed a resolution on the issue of AG2 Series bonds and defining the final terms and conditions of the issue. A base prospectus has been drawn up for the bonds. The bonds will be offered in a public offering. Up to 250,000 unsecured bearer bonds with a nominal value of PLN 100 will be offered. The bonds will bear interest at a variable rate of 3M WIBOR plus a margin of 3.5pp. Series AG2 bonds will be redeemed by the Company on February 6th 2024.

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 7th 2019