The KRUK Group
Consolidated financial statements
for the year ended December 31st 2020

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

The KRUK Group

December 31st 2020

Table of contents

Consolidated statement of profit or loss

For the year ended December 31st 2020
PLN '000

	Note	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019 restated
Continuing operations			
Interest income on debt portfolios and loans measured at amortised cost	*5*	1,083,412	1,064,327
Interest income on loans measured at fair value	*5*	6,831	-
Revenue from sale of debts and loans	*5*	4,130	4,408
Other income/expenses from purchased debt portfolios	*5*	(27,114)	(27,404)
Revenue from provision of other services	*5*	66,422	76,539
Other income	*5*	19,792	8,687
Change in investments measured at fair value	*5*	(1,803)	-
Gain/(loss) on expected credit losses	*5*	6,143	146,300
Operating income including gain/(loss) on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios		1,157,812	1,272,857
Employee benefits expense	*8*	(341,862)	(356,998)
Depreciation and amortisation	*12,13*	(46,543)	(44,043)
Services	*6*	(134,928)	(152,389)
Other expenses	*7*	(302,214)	(279,088)
		(825,547)	(832,518)
Operating profit		332,265	440,339
Finance income	*9*	89	211
Finance costs	*9*	(127,913)	(126,340)
including interest expense relating to lease liabilities		*(2,546)*	*(2,767)*
Net finance costs		(127,824)	(126,129)
Profit before tax		204,441	314,210
Income tax	*10*	(123,443)	(37,153)
Net profit for period		80,998	277,057

Net profit attributable to:

	Owners of the Parent		81,356	276,390
	Non-controlling interests		(358)	667
Net profit for period			80,998	277,057
Earnings per share				
	Basic (PLN)	*22*	4.29	14.61
	Diluted (PLN)	*22*	4.22	14.30

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

Consolidated statement of comprehensive income

For the year ended December 31st 2020
PLN '000

	Note	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019 restated
Net profit for period		80,998	277,057
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation reserve	*9*	111,579	23,550
Cash flow hedges	*25*	(14,861)	3,947
Other comprehensive income for the period, net		96,718	27,497
Total comprehensive income for period		177,716	304,554
Total comprehensive income attributable to:			
Owners of the Parent		178,074	303,887
Non-controlling interests		(358)	667
Total comprehensive income for period		177,716	304,554

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

Consolidated statement of financial position

As at Dec 31 2020
PLN '000

	Note	**Dec 31 2020**	**Dec 31 2019 restated**
Assets			
Cash and cash equivalents	*19*	145,552	150,274
Derivatives	*24*	-	3,820
Hedging instruments	*25*	-	399
Trade receivables	*18*	16,804	23,988
Other receivables	*18*	28,357	31,852
Inventories	*16*	32,069	34,692
Investments	*15*	4,208,724	4,411,438
Deferred tax asset	*17*	31,180	-
Property, plant and equipment	*12*	91,864	82,973
Goodwill	*14*	23,916	47,206
Other intangible assets	*13*	50,729	50,252
Other assets	*20*	13,836	3,020
Total assets		4,643,031	4,839,914
Equity and liabilities			
Liabilities			
Trade and other payables	*27*	112,227	94,478
Derivatives	*24*	11,236	-
Hedging instruments	*25*	18,386	3,924
Employee benefit obligations	*26*	42,860	39,343
Income tax payable		5,223	6,673
Borrowings, debt securities and leases	*23*	2,222,176	2,705,727
Provisions	*28*	53,124	24,178
Deferred tax liability	*17*	134,339	6,498
Total liabilities		2,599,571	2,880,821
Equity			
Share capital	*21*	19,011	18,972
Share premium		310,430	307,192
Cash flow hedging reserve		(14,783)	78
Translation reserve		81,360	(30,219)
Other capital reserves		103,626	104,582
Retained earnings		1,544,127	1,557,821
Equity attributable to owners of the Parent		2,043,771	1,958,426
Non-controlling interests		(311)	667
Total equity		2,043,460	1,959,093

Total equity and liabilities	4,643,031	4,839,914

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

Consolidated statement of changes in equity

For the year ended December 31st 2020 (PLN'000)

	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Equity as at Jan 1 2019		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Comprehensive income for the period										
Net profit for period		-	-	-	-	-	276,390	276,390	667	277,057
Other comprehensive income										-
- Exchange differences on translating foreign operations		-	-	-	23,550	-	-	23,550	-	23,550
- Measurement of hedging instruments		-	-	3,947	-	-	-	3,947	-	3,947
Total other comprehensive income		-	-	3,947	23,550	-	-	27,497	-	27,497
Total comprehensive income for period		-	-	3,947	23,550	-	276,390	303,887	667	304,554
Contributions from and distributions to owners										
- Payment of dividends		-	-	-	-	-	(94,653)	(94,653)	(396)	(95,049)
- Issue of shares		-	7,095	-	-	-	-	7,095	-	7,095
- Share-based payments		85	-	-	-	9,658	-	9,743	-	9,743
Total contributions from and distributions to owners		85	7,095	-	-	9,658	(94,653)	(77,815)	(396)	(78,211)
Total equity as at Dec 31 2019		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426	667	1,959,093
Equity as at Jan 1 2020		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426	667	1,959,093
Comprehensive income for the period										
Net profit for period		-	-	-	-	-	81,356	81,356	(358)	80,998
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	111,579	-	-	111,579	-	111,579
- Measurement of hedging instruments		-	-	(14,861)	-	-	-	(14,861)	-	(14,861)

Total other comprehensive income		-	-	(14,861)	111,579	-	-	96,718	-	96,718
Total comprehensive income for period		-	-	(14,861)	111,579	-	81,356	178,074	(358)	177,716
Contributions from and distributions to owners										
- Payment of dividends	*22*	-	-	-	-	-	-	-	(667)	(667)
- Issue of shares	*21*	39	3,238	-	-	-	-	3,277	-	3,277
- Share-based payments	*31*	-	-	-	-	(1,156)	-	(1,156)	-	(1,156)
- Allocation of profit to capital reserve for buyback of shares		-	-	-	-	95,050	(95,050)	-	-	-
- Share buyback	*21*	-	-	-	-	(94,850)	-	(94,850)	-	(94,850)
- Changes in equity attributable to non-controlling interests upon acquisition of control/(loss of control) of subsidiaries	*21*	-	-	-	-	-	-	-	47	47
Total contributions from and distributions to owners		39	3,238	-	-	(956)	(95,050)	(92,729)	(620)	(93,349)
Total equity as at Dec 31 2020		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771	(311)	2,043,460

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

Consolidated statement of cash flows

For the year ended December 31st 2020 *PLN '000*	***Note***	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019 restated**
Cash flows from operating activities			
Net profit for period		80,998	277,057
Adjustments			
Depreciation of property, plant and equipment	*12*	32,127	32,154
Amortisation of intangible assets	*13*	14,416	11,889
Impairment losses on goodwill		25,051	13,112
Net finance costs		127,824	115,181
(Gain)/loss on sale of property, plant and equipment		(597)	(287)
Equity-settled share-based payments	*31*	(1,156)	9,658
Income tax	*10*	123,443	37,153
Change in loans	*15*	(10,027)	(89,480)
Change in debt portfolios purchased	*15*	326,614	(92,734)
Change in inventories	*17*	2,623	693
Change in trade and other receivables	*18*	4,790	(4,609)
Change in other assets	*20*	(10,816)	(234)
Change in trade and other payables	*27*	17,749	(71,751)
Change in employee benefit obligations	*26*	3,517	4,861
Change in provisions	*28*	28,946	7,156
Share of minority profits		358	(667)
Income tax paid		(22,342)	(40,510)
Net cash from operating activities		743,516	208,642
Cash flows from investing activities			
Interest received	*9*	89	211
Sale of intangible assets and property, plant and equipment		5,980	3,175
Acquisition of subsidiaries	*14*	-	(92,325)
Purchase of intangible assets and property, plant and equipment	*12,13*	(16,974)	(48,039)
Net cash from investing activities		(10,905)	(136,978)
Cash flows from financing activities			
Net proceeds from issue of shares	*21*	3,238	7,095
Proceeds from issue of debt securities	*23*	24,550	215,000
Increase in borrowings	*23*	824,927	1,738,898
Repayment of borrowings	*23*	(1,280,865)	(1,589,672)
Payments under finance lease contracts	*23*	(26,552)	(18,593)
Payment of dividends	*22*	(667)	(95,049)
Redemption of debt securities	*23*	(88,360)	(211,388)
Share buyback		(94,850)	-
Interest paid		(98,754)	(114,983)
Net cash from financing activities		(737,333)	(68,692)
Total net cash flows		(4,722)	2,972

Cash and cash equivalents at beginning of period		150,274	147,302
Cash and cash equivalents at end of period	*19*	145,552	150,274

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

Significant accounting policies and other notes

1. Parent

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

/in the reporting period, the entity name was not changed/

Registered office:
ul. Wołowska 8
51-116 Wrocław

Poland

Registration in the National Court Register:
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland
Date of registration: September 7th 2005
Registration number: KRS NO. 0000240829

Principal business activities of the Parent and its subsidiaries

The principal business activities of the Parent and most of its subsidiaries consist primarily in the restructuring and recovery of debts purchased by the Group companies and the provision of credit management services to financial institutions and other clients. Some subsidiaries also operate in the consumer lending market.

These consolidated financial statements for the reporting period ended December 31st 2020 include the financial statements of the Parent, its subsidiaries, and entities controlled through personal links (jointly the "Group" or the "KRUK Group").

The Group comprises KRUK S.A. of Wrocław, 23 subsidiaries, and 2 entities controlled through personal links:

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna Raven P. Krupa sp.k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK Romania S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	Wrocław	Fund based on professional risk assessment and credit management methodologies;
Secapital Polska sp. z.o.o. w likwidacji (in liquidation)	Wrocław	Management of securitised debt
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans

Subsidiary	Registered office	Principal business activity
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
InvestCapital Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy and other European countries
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Espana S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Fund based on professional risk assessment and credit management methodologies;
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Bison NS FIZ (closed-end investment fund)	Wrocław	Fund based on professional risk assessment and credit management methodologies;
Wonga.pl sp. z o.o.	Warsaw	Company operating in the consumer lending market
Entity controlled through personal links	**Registered office**	**Principal business activity**
Corbul S.r.l	Bucharest	Detective activities
Gantoi, Furculita Si Asociatii S.p.a.r.l.	Bucharest	Law firm established on October 1st 2020

In 2020, the Parent had twelve field offices located in Warsaw, Gdańsk, Elbląg, Toruń, Katowice, Łódź, Kraków, Rzeszów, Poznań, Szczecin, Szczawno-Zdrój and Piła. After five field offices had been closed on February 28th 2021, from March 1st 2021 until the date of issue of this report the Company had seven field offices located in Warsaw, Gdańsk, Łódź, Poznań, Szczecin, Szczawno-Zdrój and Piła.

KRUK S.A. is the Parent of the Group. The subsidiaries are listed below.

		Ownership interest (%)	
	Country	**Dec 31 2020**	**Dec 31 2019**
SeCapital S.à r.l. [1]	Luxembourg	100%	100%

ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o. (in liquidation)	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 P. Krupa 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 [1]	Poland	100%	100%
InvestCapital Ltd [1]	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 España S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l. [2]	Luxembourg	100%	100%
Presco Investments S.a.r.l. [1]	Luxembourg	100%	100%
Presco Investments I NS FIZ[1]	Poland	100%	100%
BISON NS FIZ [1]	Poland	100%	100%
Elleffe Capital S.r.l.[1]	Italy	100%	100%
Corbul S.r.l[3]	Romania	-	-
Gantoi, Furculita Si Asociatii S.p.a.r.l. [3]	Romania	-	n/a
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	100%

[1] Subsidiaries in which the Company indirectly holds 100% of the share capital.

[2] ProsperoCapital S.a.r.l is a party to a joint arrangement.

[3] The Parent controls the company through a personal link.

/There is no other parent above KRUK S.A. and there is no other ultimate parent./

2. Basis of preparation

2.1. Statement of compliance

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

These consolidated financial statements were authorised for issue by the Management Board of the Parent (the "Management Board") on March 25th 2021.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as going concerns. The going concern assumption was reviewed in the light of the COVID-19 pandemic, in particular, the impact of the COVID-19 pandemic on the financial and liquidity situation of the Group was assessed, which is described in note 33.2 Effect of COVID-19 pandemic.

2.2. Basis of accounting

These consolidated financial statements have been prepared for the reporting period January 1st 2020 – December 31st 2020. The comparative data is presented as at December 31st 2019 and for the period January 1st 2019 – December 31st 2019.

The separate financial statements have been prepared based on the following accounting concepts:

- at amortised cost calculated using the effective interest rate method
  - including impairment losses – for credit-impaired assets,
  - financial assets held as part of the business model whose objective is to hold financial assets in order to collect contractual cash flows

  and
  - for other financial liabilities,
- at fair value for derivatives and loans whose contractual cash flows are not solely payments of principal and interest on the principal amount outstanding,
- at historical cost – for non-financial assets and liabilities.

2.3. Functional currency and presentation currency

The data contained in these consolidated financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand. Therefore, mathematical inconsistencies may occur in summations or between notes.

The Polish złoty is the functional currency of the Parent.

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 assumptions are reviewed by the Group on an ongoing basis, based on past experience and other factors, including expectations as to future events, which seem justified in given circumstances. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised. In particular, the Group's estimates as at December 31st 2020 reflected the impact of Covid-19 on the Group's assets and liabilities. However, given a considerable degree of uncertainty regarding further economic developments, these estimates may be subject to change in the future.

Information on estimates and judgements 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
	Dec 31 2019 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
Investments in debt portfolios	4,196,821	3,984,080	*3.4* *15* *29.1* *29.3*	The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or indebted persons (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. The KRUK Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, current collection strategy and macroeconomic considerations, among other factors. The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts that take into account the initial value

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2019 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
				(purchase price plus directly allocated transaction costs), and remains unchanged throughout the life of a portfolio.
Goodwill	47,206	23,916	*3.7.1* *3.10.2* *14*	Goodwill impairment is estimated based on the expected discounted cash flows to be derived from a cash-generating unit. The discount rate used to discount expected cash flows reflects the current market assessment of the asset risk for the debt collection industry. In the reporting period, the amount of goodwill impairment was PLN 25,051 thousand.
Loans measured at amortised cost	214,617	152,666	*3.4* *15* *29.1* *29.3*	Loans advanced by the KRUK Group are measured at amortised cost, using the effective interest rate method, and recognised net of expected credit losses. Expected credit losses are part of the estimate. They are estimated on the basis of expected cash flows. Changes in credit losses are recognised as income.
Loans measured at fair value through profit or loss	-	71,978	*3.4* *15* *29.1* *29.3*	Loans that do not meet the SPPI test are measured at fair value. The fair value of loans was determined based on Level 3, that is based on the forecast of expected cash flows. The present value of discounted future cash flows equals the expected cash flow for the loan portfolio concerned. The expected cash flows for a loan portfolio are determined based on the so-called 'repayment curves' for homogeneous loan groups for each month as of the grant of a given loan group. 'Repayment curves' are determined on the basis of historical repayments of loans advanced in the past, at monthly intervals.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2019 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
Lease liabilities Right-of-use assets	64,309 65,329	78,592 61,211	*3.4.3* *3.5.4* *23* *12*	The application of IFRS 16 requires making estimates and calculations that affect the measurement of lease liabilities and right-of-use assets. These include: • reviewing long-term lease contracts and identifying contracts covered by IFRS 16, • determining the lease term, • determining the marginal interest rates to be used to discount future cash flows, identifying useful lives and determining amortisation rates for the right-of-use assets.
Other provisions	7,156	29,008	*3.15* *28*	As at December 31st 2020, the Group assessed the legal risk arising from the CJUE ruling on consumer loans and estimated the possible amount of cash outflow for the reimbursement of early repayment fees to clients. The estimates required the Group to make expert assumptions, primarily concerning the scale of complaints and the amounts refunded prior to the CJEU judgment as well as the effect and the expected scale of prepayments and future refunds on on-balance sheet exposures. The estimates involve a certain amount of uncertainty.
Derivatives	3,820 *(assets)*	11,236 *(liabilities)*	*3.4.4* *24*	The Group estimates the fair value of derivative instruments as at each reporting date. Difference in discounted interest cash inflows and outflows in two different currencies, expressed in the valuation currency. The inputs include interest rate curves, basis spreads and the National Bank of Poland's fixing for the respective currencies, as provided by the Bank.
Hedging instruments	399 *(assets)* 3,924 *(liabilities)*	18,386 *(liabilities)*	*3.4.4* *25*	The Group estimates the fair value of its hedging instruments as at each reporting date. Difference in discounted interest cash flows based on floating and fixed interest rates. The inputs include the interest rate curve provided by the bank.

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	Dec 31 2019 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
Deferred tax asset and liabilities	6,498 (Liabilities)	31,180 (Asset) 103,159 (Liabilities)	*3.23* *17*	As the KRUK Group is able to control the timing of temporary differences with respect to subsidiaries, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). The Kruk Group assesses the recoverability of deferred tax assets based on its approved financial forecast for the following years.
Investments in debt portfolios	96,936	81,953	*3.4* *15*	The KRUK Group determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios at ProsperoCapital S.à r.l on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture, and therefore disclosed the transaction in the consolidated financial statements as a proportional share in the company's assets and liabilities rather than an equity-accounted transaction.
Functional currency at InvestCapital	19,456	86,460	*3.3.1* *21*	InvestCapital carries out material transactions in three different currencies: EUR, PLN, and RON. Under IAS 21, the KRUK Group assesses the correctness of applying the functional currency for executed transactions on a quarterly basis, taking into account both historical and planned transactions. The functional currency of InvestCapital is EUR.

3. Significant accounting policies

3.1. Changes in accounting policies

The accounting policies presented below were applied with respect to all the reporting periods presented in these consolidated financial statements, except for the change involving the reclassification of property as described in the *Change in accounting treatment due to reclassification* section, and the presentation changes involving items of the consolidated statement of financial position and the consolidated statement of profit and loss as described in the *Enhancing comparability* section.

The change does not have a significant impact on the consolidated statement of financial position and therefore no balance sheet data as at January 1, 2019 have been presented.

Change in accounting treatment due to reclassification

As part of its operating activities, the Group forecloses property securing acquired debt. To better reflect the relevant economic substance, as at December 31st 2020 the Group reclassified such property, previously recognised as *Investment property*, to *Inventories.*

The effects of the change on the consolidated statement of financial position and the consolidated statement of cash flows for the comparative periods are presented below. The change has not affected the consolidated statement of changes in equity for the comparative period, that is for the period ended December 31st 2019, the consolidated statement of profit or loss, and the consolidated statement of comprehensive income for the reporting period from January 1st 2019 to December 31st 2019.

	Jan 1 2019	Reclassification of property	Jan 1 2019 Restated	Dec 31 2019	Reclassification of property	Dec 31 2019 Restated
Cash and cash equivalents	147,302	-	147,302	150,274	-	150,274
Trade receivables	28,143	-	28,143	23,988	-	23,988
Investments	4,121,782	-	4,121,782	4,411,438	-	4,411,438
Investment property	35,188	(35,188)	-	34,655	(34,655)	-
Other receivables	23,088	-	23,088	31,852	-	31,852
Inventories	197	35,188	35,385	37	34,655	34,692
Property, plant and equipment	93,032	-	93,032	82,973	-	82,973
Goodwill	62,010	-	62,010	47,206	-	47,206
Other intangible assets	33,877	-	33,877	50,252	-	50,252
Deferred tax asset	-	-	-	-	-	-
Derivatives	1,450	-	1,450	4,219	-	4,219
Other assets	2,786	-	2,786	3,020	-	3,020
	4,548,855	-	4,548,855	4,839,914	-	4,839,914

	Jan 1 2019	Reclassification of property	Jan 1 2019 Restated	Dec 31 2019	Reclassification of property	Dec 31 2019 Restated
Hedge derivatives	3,870	-	3,870	3,924	-	3,924
Trade and other payables	176,054	-	176,054	101,303	-	101,303
Employee benefit obligations	44,678	-	44,678	49,539	-	49,539
Income tax payable	15,600	-	15,600	6,673	-	6,673
Liabilities under borrowings and other debt instruments	2,566,721	-	2,566,721	2,705,727	-	2,705,727
Deferred tax liability	9,182	-	9,182	7,156	-	7,156
	2,816,105	-	2,816,105	2,880,821	-	2,880,821
Share capital	18,887	-	18,887	18,972	-	18,972
Share premium	300,097	-	300,097	307,192	-	307,192
Cash flow hedging reserve	(3,869)	-	(3,869)	78	-	78
Translation reserve	(53,769)	-	(53,769)	(30,219)	-	(30,219)
Other capital reserves	94,924	-	94,924	104,582	-	104,582
Retained earnings	1,376,084	-	1,376,084	1,557,821	-	1,557,821
	1,732,354	-	1,732,354	1,958,426	-	1,958,426
	396	-	396	667	-	667
	1,732,750	-	1,732,750	1,959,093	-	1,959,093
	4,548,855	-	4,548,855	4,839,914	-	4,839,914

PLN '000

	Jan 1 2019-Dec 31 2019	Reclassification of property	Jan 1 2019-Dec 31 2019 restated
Cash flows from operating activities			
Net profit for period	277,057	-	277,057
Adjustments			-
Depreciation of property, plant and equipment	32,154	-	32,154
Amortisation of intangible assets	11,889	-	11,889
Impairment losses on goodwill	13,112	-	13,112
Net finance costs	115,181	-	115,181
(Gain)/loss on sale of property, plant and equipment	(287)	-	(287)
Equity-settled share-based payments	9,658	-	9,658
Income tax	37,153	-	37,153
Change in loans	(89,480)	-	(89,480)
Change in investments in debt portfolios and property	(92,201)	(533)	(92,734)
Change in inventories	160	533	693

Change in trade and other receivables	(4,609)	-	(4,609)
Change in other assets	(234)	-	(234)
Change in trade and other payables	(71,751)	-	(71,751)
Change in employee benefit obligations	4,861		4,861
Change in provisions	7,156	-	7,156
Share of minority profits	(667)	-	(667)
Income tax paid	(40,512)	-	(40,512)
Net cash from operating activities	208,642	-	208,642
Cash flows from investing activities			
Interest received	211	-	211
Sale of intangible assets and property, plant and equipment	3,175	-	3,175
Acquisition of subsidiaries	(92,365)	-	(92,365)
Purchase of intangible assets and property, plant and equipment	(48,040)	-	(48,040)
Net cash from investing activities	(137,018)	-	(137,018)
Cash flows from financing activities			
Net proceeds from issue of shares	7,095	-	7,095
Proceeds from issue of debt securities	215,000	-	215,000
Increase in borrowings	1,738,898	-	1,738,898
Repayment of borrowings	(1,589,672)	-	(1,589,672)
Payments under lease contracts	(18,593)	-	(18,593)
Dividends paid	(95,049)	-	(95,049)
Redemption of debt securities	(211,388)	-	(211,388)
Interest paid	(114,983)	-	(114,983)
Net cash from financing activities	(68,692)	-	(68,692)
Total net cash flows	2,972	-	2,972
Cash and cash equivalents at beginning of period	147,302	-	147,302
Cash and cash equivalents at end of period	150,274	-	150,274

For the effects of the change, see Notes 11, 15 and 16.

Enhancing comparability

- The Group has broken down revenue items in the consolidated statement of profit or loss. The data presented in the consolidated financial statements issued for the period January 1st 2019−December 31st 2019 was restated to ensure comparability.
  For better understanding of the effects of the restatement, the table below presents the restated data disclosed as *Revenue from purchased debt portfolios* in Note 5:

Revenue from purchased debt portfolios

PLN '000

	Jan 1–Dec 31 2019 Originally reported	**Change of presentation**	**Interest income**	**Other income/expenses from purchased debt portfolios**	*costs of loyalty scheme valuation*	*costs of provision for overpayments*	*Foreign currency gains/(losses)*	**Gain/(loss) on expected credit losses from debt portfolios**	*Revision of recovery projections*	*Deviations of actual recoveries, decreases on early collections in collateralised cases, payments from original creditor.*	**Gain/(loss) on sale of debts**
Interest income	**976,883**	**(976,883)**	**976,883**								
Other income from purchased debt	**71,394**	**(71,394)**									
of which:											
Deviations of actual recoveries, decreases on early collections in collateralised cases	*80,838*	*(80,838)*						*80,838*		*80,838*	
costs of loyalty scheme valuation	*(4,456)*	*4,456*		**(4,456)**	*(4,456)*						
costs of provision for overpayments	*(4,988)*	*4,988*		**(4,988)**		*(4,988)*					
Revaluation of debt portfolios	**60,964**	**(60,964)**									
of which:											
Revision of recovery projections	*78,924*	*(78,924)*							*78,924*		
Foreign currency gains/(losses)	*(17,960)*	*17,960*		**(17,960)**			*(17,960)*				
Gain/(loss) on sale of debts	**4,408**	(4,408)									**4,408**
Foreclosure of property	**25,678**	**(25,678)**						**25,678**		*25,678*	
Gain/(loss) on sale of property	**(989)**	**989**						**(989)**		*(989)*	
	1,138,338	**(1,138,338)**	**976,883**	**(27,404)**	*(4,456)*	*(4,988)*	*(17,960)*	**105,527**	*78,924*	*105,527*	**4,408**

Revenue presentation was changed so that revenue from other services is presented as a separate line item. It includes revenue from credit management services, as well as revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, auxiliary services provided to small and medium-sized enterprises, and some other services.

The effect of the change on the consolidated statement of profit or loss is presented under *Change of revenue presentation:*

PLN '000	**Jan 1–Dec 31 2019 Originally reported**	**Goodwill impairment loss**	**Change of revenue presentation**	**Jan 1–Dec 31 2019 Data restated to ensure comparability**
Revenue	1,251,057	13,112	(1,264,169)	-
Interest income on debt portfolios and loans measured at amortised cost			1,064,327	1,064,327
Interest income on loans measured at fair value			-	-
Revenue from sale of debts and loans			4,408	4,408
Other income/expenses from purchased debt portfolios			(27,404)	(27,404)
Revenue from provision of other services			76,539	76,539
Other income	8,687		-	8,687
Change in investments measured at fair value			-	-
Gain/(loss) on expected credit losses			146,300	146,300
				-
	1,259,743	13,112	-	1,272,855
				-
Employee benefits expense	(356,998)			(356,998)
Depreciation and amortisation	(44,043)			(44,043)
Services	(152,389)			(152,389)
Other expenses	(265,974)	(13,112)		(279,088)
	(819,404)	(13,112)	-	(832,518)
				-
Operating profit	**440,339**	**-**	**-**	**440,339**

- To better reflect the relevant economic substance, the Group changed the presentation of goodwill impairment loss by moving it from revenue to expenses. The data presented in the consolidated financial statements issued for the period January 1st 2019−December 31st 2019 was restated to ensure comparability. The effect of the change on the consolidated statement of profit or loss is presented above under *Goodwill impairment loss.*

For the effects of the change, see Notes 4, 5 and 7.

- To better reflect the relevant economic substance, as at December 31st 2020 the Group changed the presentation of liabilities in the consolidated statement of financial position by taking hedging instruments from the *Derivatives* item and disclosing them as a separate item. In the Management Board's opinion, the separate presentation of these line items will enhance the quality of data presented in these consolidated financial statements and its usefulness to readers. The data presented in the consolidated financial statements issued for the period January 1st 2019–December 31st 2019 was restated to ensure comparability. The effect of the change on the consolidated statement of financial position is presented below.

PLN '000	**Jan 1 2019**	**Change of presentation**	**Jan 1 2019 Data restated to ensure comparability**
Liabilities			
Derivatives	3,870	(3,870)	-
Hedging instruments	-	3,870	3,870

PLN '000	**Dec 31 2019 Originally reported**	**Change of presentation**	**Dec 31 2019 Data restated to ensure comparability**
Assets			
Derivatives	4,219	(399)	3,820
Hedging instruments	-	399	399
Liabilities			
Derivatives	3,924	(3,924)	-
Hedging instruments	-	3,924	3,924

For the effects of the change, see Notes 11, 24, 25 and 29.

- To better reflect the relevant economic substance, as at December 31st 2020 the Group changed the presentation of its loyalty scheme provision (previously disclosed under *Trade and other payables)* and provision for retirement gratuities (previously disclosed under *Employee benefit obligations*) by moving them to *Provisions.*

  The data presented in the consolidated financial statements issued for the period January 1st 2019−December 31st 2019 was restated to ensure comparability. The effect of the change on the consolidated statement of financial position is presented below.

PLN '000	**Jan 1 2019**	**Change of presentation**	**Jan 1 2019 Data restated to ensure comparability**
Liabilities			
Trade and other payables	176,054	(7,392)	168,662
Employee benefit obligations	44,678	(6,554)	38,124
Provisions	-	13,946	13,946

PLN '000	**Dec 31 2019 Originally reported**	**Change of presentation**	**Dec 31 2019 Data restated to ensure comparability**
Liabilities			
Trade and other payables	101,303	(6,825)	94,478
Employee benefit obligations	49,539	(10,196)	39,343
Provisions	7,156	17,021	24,178

For the effects of the change, see Notes 11, 26, 27 and 28.

3.2. Basis of consolidation

The Group consolidates the entities over which it exercises control, i.e. subsidiaries, starting from the date when the Group obtains control.

The Parent exercises control when it:

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

All KRUK Group companies are consolidated using the full method, except ProsperoCapital S.a.r.l., consolidated with the proportional method.

Full consolidation of subsidiaries' financial statements consists in summing up the individual items of the statement of financial position and the statement of profit or loss and other comprehensive income of the Parent and the subsidiaries in full amounts, and making appropriate consolidation adjustments and eliminations.

The carrying amount of shares held directly and indirectly by the Parent in its subsidiaries and the equity of those subsidiaries on acquisition are eliminated. The following items are eliminated in full amounts:

1) mutual receivables and liabilities and similar accounts between the consolidated entities;
2) income and costs arising on transactions concluded between the consolidated entities;
3) gains or losses arising on transactions between the consolidated entities, included in the value of consolidated assets, with the exception of losses indicating impairment;
4) dividends accrued or paid by the subsidiaries to the Parent and other consolidated entities.

3.2.1. Business acquisitions

Business acquisitions, including acquisitions of closed-end investment funds, are accounted for with the acquisition method as at the acquisition date, which is the date on which the Group assumes control of the acquiree.

The Group recognises goodwill calculated as the excess of the consideration transferred over the fair value of the acquired net identifiable assets. If the fair value of purchased net assets exceeds the consideration transferred, the Group recognises the gain on bargain purchase.

The consideration transferred is measured at fair value of transferred assets, liabilities incurred by the Group towards the previous owners of the acquiree, and shares issued by the Group. The consideration also includes the fair value of a part of contingent consideration. If as a result of the acquisition previous liabilities between the Group and the acquiree expire, the value of the consideration is decreased by the contractual price for the extinguishment of liability and recognised as other costs.
The fair value of intangible assets acquired in a business acquisition is based on discounted cash flows expected from the use or any disposal of such assets.

The fair value of property, plant and equipment acquired in a business acquisition is based on the market value of such property, plant and equipment. The fair value of other items of property, plant and equipment is determined using the market approach and cost methods which are based on market quoted prices for similar assets, if available, and, in justified cases, on replacement costs.

Conditional liabilities of the acquiree are accounted for in a business acquisition only where such liability is currently payable, results from past events, and its fair value may be estimated in a reliable manner.

The Group measures all non-controlling interests in proportion to the interests in identifiable net assets of the acquiree.

Material transaction costs incurred in relation to a business acquisition, such as legal fees, costs of due diligence and other professional services, are recognised as costs for the period in which they are incurred.

3.2.2. Subsidiaries

Subsidiaries are entities controlled by the Parent, including investment funds. Financial statements of subsidiaries are consolidated from the date of assuming control over subsidiaries to the date on which such control ceases to exist. The accounting policies applied by the subsidiaries are uniform with the policies applied by the Group.

3.3. Foreign currencies

3.3.1. Foreign currency transactions

Transactions denominated in foreign currencies as at the transaction date are recognised in the functional currencies of the Group's entities, at buy or sell rates quoted as at the transaction date by the bank whose services a given entity uses.
Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the central bank for that date. Exchange differences on measurement of financial assets and liabilities as at the end of the reporting period are the differences between the value at amortised cost (or at fair value) in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the relevant mid exchange rate quoted by the central bank for the end of the reporting period.
Non-monetary items of foreign currency assets and liabilities valued at historical cost are translated at the relevant mid exchange rate quoted by the central bank for the transaction date.
Non-monetary items of foreign currency assets and liabilities valued at fair value are translated at the relevant mid exchange rate quoted by the central bank for the date of fair value measurement.
Exchange differences on translation into the functional currency are recognised in profit or loss for the given period.

3.3.2. Translation of foreign operations

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

Any currency-translation differences (translation reserve) are recognised as other comprehensive income. Where a foreign operation is sold, in whole or in part, relevant amounts recognised in equity are charged to profit or loss for the period.
Any exchange differences on monetary items in the form of receivables from a foreign entity which are not planned or probable to be settled in foreseeable future are a part of net investment in the entity operating abroad, and are recognised in other comprehensive income and presented under equity as exchange differences on translation.

3.4. Financial instruments

3.4.1. Financial assets

Financial assets are classified by the Group into one of the following categories:

- measured at amortised cost,
- at fair value through other comprehensive income,
- at fair value through profit or loss.

The classification of financial assets as at the acquisition or origination date depends on the business model adopted by the Group to manage a given group of assets and the characteristics of contractual cash flows arising from a single asset or group of assets.

The Group identifies the following business models:

- 'Hold to collect' model – a model in which financial assets originated or acquired are held to derive benefits from contractual cash flows,
- 'Hold to collect and sell' model – a model where financial assets are held after the origination or acquisition in order to derive benefits from contractual cash flows, but can also be sold – often and in high volume transactions,
- 'Other' model - a model other than the 'hold to collect' model and 'hold to collect and sell' model.

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).

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 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. If the contractual terms are modified, the estimated credit risks are revised accordingly. Indications of a significant risk increase include feedback from clients reporting possible problems with timely loan repayments and requests for credit holidays. The effective interest rate is determined at the time of recognition of loans and remains unchanged during subsequent reporting periods.

On initial recognition, the Group measures financial assets at fair value plus transaction costs directly attributable to their acquisition, net of trade and other receivables.

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

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

1. The following assets are measured at amortised cost:
    a. Investments in debt portfolios
    b. Trade and other receivables
    c. Loans

    Investments in debt portfolios and loans 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. At fair value through other comprehensive income

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

    - the financial asset is held in the 'hold to collect and sell' business model (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets); 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 (the SPPI test passed).

3. At fair value through profit or loss
    All financial assets which do not meet the criteria for classification as financial assets measured at amortised cost or at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

Financial assets are reclassified only in the event of a change in the business model relating to the asset or a group of assets resulting from the commencement or cessation of a significant part of the business. Such changes are infrequent. A change in classification is recognised prospectively, i.e. without a change in the previously recognised fair value measurement effects in earlier periods of impairment losses or accrued interest.

The following is considered a change in the business model:

- changes in the intentions related to specific financial assets (even in the event of significant changes in market conditions),
- temporary disappearance of a specific market in financial assets,
- transfers of financial assets between business areas using different business models.

A financial asset is derecognised when, and only when, the following conditions are met:

- the contractual rights to the cash flows from the financial asset expire;
- the financial asset is transferred and the transfer meets the derecognition criteria described below.

While transferring a financial asset, the Company assesses the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

1. if the Group transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained upon the transfer;
2. if the Group retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the asset;
3. if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset.

   In such a case:

   - if the Company has not retained the control, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained upon the transfer;
   - if the Company has retained the control, it continues to recognise the asset to the extent to which it maintains its continuing involvement in that asset.

Financial assets measured at amortised cost

Investments in debt portfolios

Investments in debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under debt assignment agreements. Prices paid by the Group for such debt portfolios are significantly lower than their nominal value (financial assets impaired due to credit risk).

The KRUK Group's business model for investments in 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 Group as measured at amortised cost to better reflect the portfolio management strategy focused on holding an asset with a view to maximising contractual recoveries.

Investments in debt portfolios are measured at amortised cost, using the credit risk-adjusted 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 which can be directly allocated.

The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts that take into account the initial value (purchase price plus directly allocated transaction costs), and remains unchanged throughout the life of a portfolio. An adjustment to the effective discount rate is possible if the purchase price is reduced on partial repayment under a given debt portfolio to the seller of that debt portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost applicable to the purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects that credit risk, and is recognised in profit or loss for the current period under 'Interest income on debt portfolios and loans measured at amortised cost'. All interest income is recognised as an increase in the carrying amount of the portfolio. All actual recoveries collected during the period are recognised as a decrease in the carrying amount of the portfolio.

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 increased by interest income and decreased by actual recoveries, and adjusted to reflect any 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.

Net changes in allowances for expected credit losses are recognised as 'Gain/(loss) on expected credit losses' in the statement of profit or loss.

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 date of debt portfolio purchase for the Kruk Group.

The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Group. Portfolio groups are made of portfolios that are at similar recovery phases. The Group 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.

<u>*Loans at amortised cost*</u>

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

Loans are recognised as financial assets in the Group's business model whose objective is to collect contractual cash flows.

Loans measured at amortised cost are based on the effective interest rate and include allowances for expected credit losses. The effective interest rate is determined on the basis of the originally expected flow resulting directly from the original payment schedule. Interest income is calculated at the effective interest rate and recognised in the statement of profit or loss under 'Interest income on debt portfolios and loans measured at amortised cost'. Impairment losses on loans include changes related to expected credit losses. For loans measured at amortised cost, the effective interest rate is determined at the time of recognition of loans and remains unchanged during subsequent reporting periods.

Net changes in allowances for expected credit losses are recognised as 'Gain/(loss) on expected credit losses' in the statement of profit or loss.

They are estimated on the basis of expected cash flows.

In the case of monthly instalments, expected credit losses are determined by comparing the gross carrying amount of a loan portfolio as at a given reporting date with the present value of discounted future cash flows expected to be recovered from that portfolio.

The gross carrying amount of the loan portfolio as at the reporting date includes, among other things, the loan principal amount and other contractual charges (interest, commissions, etc.) accrued as at the reporting date, less payments made by the client as at the reporting date.

The present value of discounted future cash flows equals the expected cash flow for the loan portfolio concerned. The discounted cash flows are determined based on the effective interest rate. The expected cash flows for a loan portfolio are determined based on the so-called 'repayment curves' for homogeneous loan groups for each month as of the grant of a given loan group. 'Repayment curves' are determined on the basis of historical repayments of loans advanced in the past, at monthly intervals. 'Repayment curves' may also be established based on adjusted contractual flows, the adjustment having been determined against historical credit losses.

Expected credit losses for short-term products are determined essentially in the same manner as for instalment-based products, with the proviso that repayments are analysed based on loan duration in weeks.

Net changes in allowances for expected credit losses are recognised as 'Gain/(loss) on expected credit losses' in the consolidated statement of profit or loss.

How expected credit losses are recognised by the KRUK Group depends on a change of the risk level from the date of the loan origination. To assess whether the credit risk increase is significant, the Group compares the risk of default on a given financial asset as at the reporting date with the risk of default on that financial asset as at the date of its initial recognition, taking into consideration rational information that can be documented.

Objective evidence that a financial asset is credit-impaired includes observable data about the following events: a breach of contract, such as a default or past-due event. If the contractual terms are modified, the estimated credit risks are revised accordingly. Indications of a significant risk increase include feedback from clients reporting possible problems with timely loan repayments and requests for credit holidays. The effective interest rate is determined at the time of recognition of loans and remains unchanged during subsequent reporting periods.

Valuation of loan portfolios involves forecasting to determine expected credit losses on future cash flows. When estimating expected credit losses for loan portfolios, the effect of expected changes in the macroeconomic situation is taken into account by estimating the impact of forecast revisions for selected macroeconomic indicators on expected cash flows. Such revisions are taken into account if expected changes in the macroeconomic situation would have a major and measurable impact on expected cash flows (expected credit losses). As at the date of these financial statements, the macroeconomic effect related to the COVID pandemic was estimated at approximately PLN 600 thousand.

With reference to the requirements of IFRS 9, the KRUK Group classifies loans into three baskets for which expected losses and interest income are recognised as follows:

• Basket 1 (stage *1)* – includes loans for which no significant increase in credit risk (no past-due events) and no impairment have been identified between the date of recognition and the reporting date. Indications of a significant risk increase include, among other things, feedback from clients reporting possible problems with timely repayments and requests for credit holidays.
The expected losses on such loans are recognised for a time horizon of the next 12 months or earlier if their maturity date is closer. In Basket 1, interest income is recognised on the gross carrying amount.

• Basket 2 (stage *2)* – includes loans for which there has been a significant increase in credit risk between the date of recognition and the reporting date (i.e. the loan is past due or the credit agreement has been terminated). Loans may be classified into Basket 2 if their repayment is past due by at least one day. In addition, Basket 2 may include loans for which a significant increase in risk has been identified based on feedback from clients reporting possible problems with timely loan repayments and requests for credit holidays. In such cases, an additional impairment loss may also be recognised for the loan portfolio concerned to account for an increase in the expected credit loss over historical estimates.
For such loans, lifetime expected credit losses are recognised. In Basket 2, interest income is recognised on the gross carrying amount.

• Basket 3 (*stage 3*) – includes loans in the case of which impairment has been identified, i.e. where the loan is past due by over 90 days, or where the loan agreement has been terminated. For such loans, expected lifetime credit losses are recognised.

Purchased or originated credit-impaired financial assets (POCI) are classified into Basket 3 on initial recognition, and interest income on loans classified as POCI are recognised on a net basis. The credit risk-adjusted effective interest rate is determined based on future cash flows adjusted for the effect of credit risk recognised over the entire forecast horizon.

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 (fair value through profit or loss option),

c) it does not meet the SPPI test as the loan contractual flows include elements other than payment of principal, interest, and time value of money. In the case of consumer loans, the element resulting in failure to pass the SPPI test is related to the floating loan interest rate that may be interpreted as an additional payment for the duration of the open exposures under loans advanced.

Pursuant to subparagraph (c) above, loans that meet the SPPI requirement, held both to collect contractual cash flows from assets and to sell assets, are classified as measured at fair value.

In the case of Wonga loans, their fair value was determined on the Level 3 basis, i.e. based on a forecast of expected cash flows.

The interest rate used to discount future cash flows for loans measured at fair value is based on the following elements: the risk-free rate, the market interest rate (margin) under Group financing, and the premium for non-performing loans (the last two elements being estimated based on the observed prices for terminated loans), as well as an additional margin for a variable prepayment profile (for instance, early repayment vs the agreed schedule or as well as rescheduled repayments for loans advanced).

In the case of monthly instalments, expected credit losses are determined by comparing the gross carrying amount of a loan portfolio as at a given reporting date with the present value of discounted future cash flows expected to be recovered from that portfolio.

The gross carrying amount of the loan portfolio as at the reporting date includes, among other things, the loan principal amount and other contractual charges (interest, commissions, etc.) accrued as at the reporting date, less payments made by the client as at the reporting date.

The present value of discounted future cash flows equals the expected cash flow for the loan portfolio concerned. The expected cash flows for a loan portfolio are determined based on the so-called 'repayment curves' for homogeneous loan groups for each month as of the grant of a given loan group. 'Repayment curves' are determined on the basis of historical repayments of loans advanced in the past, at monthly intervals.

Expected credit losses for short-term products are determined essentially in the same manner as for instalment-based products, with the proviso that repayments are analysed based on loan duration in weeks.

How expected losses for loans measured at fair value are recognised by the KRUK Group depends on a change of the risk level from the date of the loan origination. To assess whether the credit risk increase is significant, the Group compares the risk of default on a given financial asset as at the reporting date with the risk of default on that financial asset as at the date of its initial recognition, taking into consideration rational information that can be documented.

A gain/(loss) on assets measured at fair value through profit or loss is recognised in profit or loss under 'Change in investments measured at fair value'.

Financial assets may be designated at fair value through profit or loss at initial recognition (fair value through profit or loss option) if such designation eliminates or significantly reduces the recognition or measurement inconsistency that would otherwise arise from the measurement of assets or liabilities or the recognition of related gains or losses in accordance with different policies (accounting mismatch).

Financial assets at fair value through other comprehensive income

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 in the 'hold to collect and sell' business model (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets); and
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.

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for interest income, gain or loss on expected credit 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 other comprehensive income to profit or loss as a reclassification adjustment.

3.4.2. Trade and other receivables

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

Trade and other receivables maturing in less than 12 months from the origination date are initially recognised at nominal value as the discount effect is immaterial. Trade and other receivables maturing in up to 12 consecutive months are recognised as at the reporting date at the amount of payment due, net of impairment losses.

When measuring trade receivables, the Group applies the simplified approach permitted under IFRS 9, using the provisions matrix to calculate expected credit losses for trade receivables.

Impairment of trade and other receivables

The KRUK Group recognises an impairment allowance for expected credit losses on trade and other receivables that do not contain a significant financing component at an amount equal to lifetime expected credit losses. At the Group, recognition of expected losses depends on a change in the level of risk from the moment a receivable arises.

To assess whether the credit risk increase for financial assets is significant, the Group compares the risk of default on a given financial asset as at the reporting date with the risk of default on that financial asset as at the date of its initial recognition, taking into consideration rational information that can be documented.

Objective evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the client,
- a breach of contract, such as a default or past due event,
- probability that the borrower will enter bankruptcy or other financial reorganisation.

When measuring trade receivables, the Group applies the simplified approach permitted under IFRS 9, using the provisions matrix to calculate expected credit losses for trade receivables.

A default is a failure by a debtor to make certain payments due to a creditor. A debt is incurred as a result of delay in the performance of an obligation and may have a cash or in-kind form.

3.4.3. Financial liabilities other than derivative instruments and other liabilities

Financial liabilities other than derivative instruments

The Group classifies financial liabilities into one of the following categories:

- measured at amortised cost,
- measured at fair value through profit or loss.

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of a financial instrument.

Non-derivative financial liabilities are initially recognised at fair value plus directly attributable transaction costs. Following initial recognition, such liabilities are measured at amortised cost with the use of the effective interest rate.

The Group has the following liabilities: bank borrowings, debt securities, and lease liabilities.

The Group derecognises a liability when the liability has been paid, written off or is time barred.

Trade and other payables

Trade and other payables are recognised as at the date of the transaction under which the Group becomes a party to a contract for a specific performance, and measured as at the reporting date the amount of payment due.

The Group presents liabilities related to purchased debt portfolios under trade payables.

The Group derecognises a liability when the liability has been paid, written off or is time barred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are set off against each other and disclosed on a net basis in the statement of financial position only if the Group holds a legally enforceable right to set off a financial asset and a financial liability and if it intends to settle on a net basis, or if it intends to realise the asset and settle the financial liability simultaneously.

Fair value for the purpose of disclosure in the financial statements

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 lease liabilities, the market interest rate is determined by 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.

3.4.4. Derivative instruments and hedge accounting

Hedge accounting

Under IFRS 9, to apply hedge accounting, the Group is required to meet all the requirements specified below:

a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;

b) at the inception of the hedging relationship, the entity has formally designated and documented the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio, where the hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument); the hedge ratio for a given relationship is set at 1.0 (i.e. each unit of the notional amount of the hedging instrument hedges a unit of the designated notional amount of the hedged item);

c) the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk does not dominate the value changes that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation may not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

A hedging relationship is terminated in its entirety when, as a whole, it no longer meets the qualifying criteria, in particular:

a) where the hedging relationship no longer meets the risk management objective based on which it was qualified for hedge accounting (i.e. the entity no longer pursues that risk management objective);

b) where the hedging instrument or instruments have been sold or terminated (with respect to the entire volume that was part of the hedging relationship);

c) where an economic relationship between the hedged item and the hedging instrument no longer exists, or the credit risk starts to dominate the value changes that result from that economic relationship.

Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

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.

As long as a cash flow hedge meets the qualifying criteria in the paragraphs above, the hedging relationship is accounted for as follows:

a) the separate component of equity with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- the cumulative gain or loss on the hedging instrument from inception of the hedge;
- the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge;

b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with a)) is recognised in other comprehensive income;

c) any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a) is hedge ineffectiveness that is recognised in profit or loss;

d) the amount that has been accumulated in the cash flow hedge reserve in accordance with a) is accounted for as follows:

- if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becoming a firm commitment for which fair value hedge accounting is applied, the entity removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability,
- for cash flow hedges other than those covered by the subparagraph above, that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss,
- however, if that amount is a loss and the Company expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

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

Hedging of a net investment in a foreign operation

In 2019, the Group started to apply hedge accounting for a net investment in a foreign operation. Hedge accounting for a net investment in a foreign operation consists in hedging interests in net assets of a foreign operation included in these consolidated financial statements.

The hedged item is a specified portion of interests in net assets of foreign operations, understood as the difference between the carrying amount of the assets and the carrying amount of liabilities and provisions of the foreign subsidiary (expressed in EUR).

Calculation of the permitted hedged item does not include those monetary items (intra-group receivables and/or liabilities between the Parent and the foreign subsidiary) that have a specified maturity date (i.e. they will be converted into receivables/payables at a specified future date (including trade receivables/payables, receivables/payables under collected debts, resale of shares etc.).

In order to increase the economic effectiveness of the hedge, the Group designated hedging relationships with a monthly frequency, i.e. each FX Forward/FX Swap transaction with a one-month maturity was linked to a designated hedged item for one month, assuming that the nominal portion of the net investment designated as the hedged item is fixed during the month.

The Group measures the ex-ante effectiveness as at the date of establishing the hedging relationship and as at each subsequent effectiveness measurement date (the end date of the reporting period).

As part of a prospective assessment of hedge effectiveness, the Group checks whether the following three conditions for establishing and maintaining a hedging relationship are met:

- *Condition 1 – an economic relationship exists,*
- *Condition 2 – credit risk does not dominate the hedged risk,*
- *Condition 3 – designated hedge ratio is consistent:*

The hedge ratio for an established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument.
The hedge ratio for a given relationship is set at 1.0 (i.e. each unit of the notional amount of the hedging instrument hedges a unit of the designated notional amount of the hedged item).
Given its characteristics, the hedging relationship meets, by definition, the requirement that an economic relationship exists between the hedging instrument and the hedged item (EUR sale contract vs EUR-denominated net assets).

The effect of credit risk cannot dominate changes in the fair values of the hedging instrument and the hedged item.

As at each effectiveness measurement date, the Group performs an expert assessment of whether this condition is met based on the following three qualitative criteria:

- absence of counterparty defaults under hedging transactions,
- application of credit risk management policies to counterparties under hedging transactions (monitoring, limits),
- absence of credit risk on the hedged item.

If all the above criteria are met at the measurement date, the condition that the effect of credit risk cannot dominate value changes of the hedging instrument and the hedged item is deemed to be met

The Group expects this condition to be met in each case.

The Group recognises hedges of a net investment in a foreign operation, including the hedge of a monetary item forming part of the net investment, similarly to cash flow hedges:

a) the portion of the gain/(loss) on the hedging instrument that has been designated as effective hedge is recognised in other comprehensive income; and
b) the portion that is not an effective hedge is recognised in profit or loss of the current financial year.

The Group discontinues hedge accounting in one of the following cases:

- the hedging instrument expires, is sold or settled early,
- the value of net assets in a foreign operation falls below the nominal value of the hedging instrument (in this case there is only partial discontinuation of hedge accounting for the excess portion of the hedging instrument),
- the criteria for applying hedge accounting are not met, in particular the criteria for assessing hedge effectiveness,
- The Group changes its risk management strategy to one with which the existing hedging relationship is not consistent.

After discontinuing hedge accounting for a given hedging relationship, cumulative gains or losses on the hedging instrument, related to an effective portion of the hedge, which have been accumulated in the foreign currency translation reserve are reclassified from equity to profit or loss as a reclassification adjustment in accordance with IAS 21 on disposal or partial disposal of a foreign operation at the time of such event.

3.5. Property, plant and equipment

3.5.1. Recognition and measurement

Items of property, plant and equipment are recognised at cost, less depreciation charges and impairment losses.
The 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 (where an item of property, plant and equipment is 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.

3.5.2. Subsequent expenditure

The Group companies capitalise future expenditure on an item of property, plant and equipment if such expenditure may be reliably estimated and if the Group is likely to derive economic benefits from such item of property, plant and equipment. 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.

3.5.3. Depreciation

The level of depreciation charges is determined based on acquisition or production cost of a certain asset less its residual value.
Depreciation expense is recognised in the current period's profit or loss, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Land is not depreciated.

The Group has adopted the following length of useful lives for particular categories of property, plant and equipment:

Buildings (investments in third-party facilities)	10-40	years
Plant and equipment	3-10	years
Vehicles	4-5	years
Other property, plant and equipment	3-8	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.

3.5.4. Right of use and lease liabilities

The Group classifies long-term lease contracts as leases, disclosing in its financial statements the right-of-use assets (under property, plant and equipment in the statement of financial position) and lease liabilities (under borrowings and other financial liabilities in the statement of financial position) measured at the present value of the lease payments that remain to be paid.

The amount of future lease payments is discounted using the lessee's weighted average incremental borrowing rate. The right-of-use assets are recognised at the same amounts as the lease liabilities, unless contractual clauses exist that could result in creating provisions for additional charges or provisions related to the disassembly of leased facilities or items. The Group applies the practical expedient permitted by the standard for short-term leases (up to 12 months) and low-value leases (up to PLN 20 thousand), for which it does not recognise financial liabilities and related right-of-use assets, and lease payments are recognised as costs using the straight-line method during the lease term under services in the consolidated statement of profit or loss.

The Group recognises a lease contract as a right-of-use asset and a corresponding lease liability as of the date when the leased asset is available for use. The lease term was determined taking into account the extension and shortening options available under executed contracts if the option is likely to be exercised.

The lease liability includes the present value of the following lease payments:

- fixed lease payments (including in principle fixed lease payments) less any lease incentives due,
- variable lease payments that depend on the index or rate,
- amounts expected to be paid by a lessee under a residual value guarantee,
- the exercise price of the call option if it is reasonably certain that the lessee will exercise that option,

and

- cash penalties for terminating the lease if the lease provides that the lessee may exercise the option to terminate the lease.

After the commencement date, the lease liability is measured by:

a) increasing the carrying amount to reflect interest on the lease liabilities;
b) reducing the carrying amount to reflect the lease payments made; and

c) remeasuring the carrying amount to reflect any lease reassessment or modification, or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

Right-of-use assets are initially and subsequently measured at cost, including:

- the initial amount of the lease liability;
- any lease payments made at or prior to commencement, less any lease incentives received,
- any initial direct costs incurred by the lessee (i.e. incremental costs of obtaining the lease),

and
- an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site on which it is located, if the lessee assumes a liability in relation to those costs.

Right-of-use assets are amortised on a straight-line basis over the shorter of the useful life of the asset or the lease term, unless the Group is certain that it obtains ownership before the end of the lease, while lease liabilities are measured at amortised cost.

3.6. Inventories (including property)

As a result of the reclassification made, property foreclosed through debt recovery is now recognised by the Group under 'Inventories'.

The Group forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held to generate future income from sale. 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 indebted person's debt. Property is initially measured at cost, including transaction costs. Subsequent to initial recognition, property is measured at the lower of cost and net realisable value.

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 the statement of profit or loss for the period under income.

3.7. Intangible assets

3.7.1. Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill measurement methods at the time of its initial recognition are described in note 3.2.1.

Measurement after initial recognition
Following initial recognition, goodwill is measured at cost less cumulative impairment loss.

Goodwill is not amortised. Goodwill is tested for impairment at least once a year. For estimates and judgements used to determine impairment losses, see note 3.10.2.

3.7.2. Intangible assets

Other acquired or internally produced intangible assets with finite useful economic lives are recognised at cost, less amortisation charges and impairment losses.
The Group recognises development expenses under intangible assets. Costs of 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 Group 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.

3.7.3. Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure, including internally generated trademarks, goodwill and brand is recognised in the current period's profit or loss at the moment in which it is incurred.

3.7.4. Amortisation

The amount of amortisation charges is determined based on acquisition or production cost of an asset, less its residual value.
Amortisation expense is recognised in the current period's profit or loss on the straight-line basis with respect of the estimated useful life of an 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 certain asset in the best possible way.

The Group has adopted the following length of useful lives for particular categories of intangible assets:

Software, licences, permits	5 years
Other, i.e. 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.

3.7.5. Assets amortised over time and intangible assets under development

The Group recognises expenditure related to the long-term process of generating intangible assets (especially expenditure on development of computer systems) as assets amortised over time. Capitalised expenditure is expenditure that meets the definition of intangible assets. Expenditure incurred on configuration and modification of computer systems on manufacturer's servers (in the cloud) is also recognised as intangible assets under development until the system is placed in service. Once placed in service, those assets and subscription fees paid in advance are accounted for in proportion to the duration of the contract with the supplier.

3.8. Investments

Investments include:

- Debt portfolios measured at amortised cost (for the rules followed in accounting for such portfolios, see note 3.4.1 and 3.10.1);
- Loans (for the rules followed in accounting for loans, see notes 3.4.1 and 3.10.1).

3.9. 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 end of the reporting period also includes accrued interest.

3.10. Impairment losses on assets

3.10.1. Financial assets

The Group measures investments in debt portfolios at amortised cost, while investments in loans are measured at amortised cost and at fair value through profit or loss.

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.

According to the description of baskets for the recognition of expected credit losses presented in sections 3.4.1 and 3.4.2, in the case of receivables and loans objective indications of impairment include non-payment or arrears in repayment of debt by an indebted person; breach of the contract; and circumstances indicating high probability of the indebted person's bankruptcy.

The Group assesses the evidence of impairment at the level of an individual asset.

When assessing the impairment of debt portfolios, the Group 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. Any losses are recognised in profit or loss for the period and reduce the current value of financial assets; the Group continues to charge interest on impaired assets. If any subsequent circumstances indicate that the criteria for impairment losses have ceased to be met, reversal of impairment losses is recognised in profit or loss for the current period.

Net changes in allowances for expected credit losses on financial assets measured at amortised cost (debt portfolios and loans) are recognised as ‘Gain/(loss) on expected credit losses’ in the statement of profit or loss.

A gain/(loss) on assets measured at fair value through profit or loss (loans) is recognised in profit or loss under ‘Change in investments measured at fair value’.

3.10.2. Non-financial assets

The carrying amount of non-financial assets is tested for impairment as at the end of each reporting period. If any criteria of impairment are met, the Group estimates the recoverable amount of particular assets or cash-generating units. The recoverable amounts of goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet fit for use are estimated at the same time each year.

The recoverable amount of assets or cash-generating units is the higher of an asset’s fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted at a rate which reflects current market assessments of the time value of money and the risks specific to the asset. Due to the changing market environment, the Group decided that the discount rate for the purposes of the DCF model used in tests for impairment of goodwill and assets should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, to calculate the discount rate, the Company used the weighted average cost of capital for the debt collection industry, broken down into individual countries where the tested asset exists. 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.

For impairment testing, assets are grouped up to the smallest distinguishable units which generate cash flows largely independently from other assets or units of assets.

The Group tests the recognised goodwill for impairment by grouping cash-generating units so that the organisational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organisational level at which the Group monitors goodwill for its own purposes.

For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination. The current assumptions are described in Note 14.

The Group’s corporate (joint) assets do not generate separate cash flows. If any criteria of impairment of corporate assets are met, the recoverable amount is assessed for the cash-generating units to which those assets belong.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit is higher than its recoverable amount. Impairment losses are recognised in profit or loss for the period. Impairment of a cash-generating unit is first recognised as impairment on goodwill allocated to that unit (group of units), and subsequently as impairment of carrying amount of other assets of that unit (group of units) on pro-rata basis.

Goodwill impairment losses are irreversible. Impairment losses on other assets, recognised in previous periods, are reviewed for reduction or reversal at the end of each reporting period. Impairment losses are reversible if the estimates applied to the assessment of the recoverable amount have changed. An impairment loss is reversible only up to the initial value of an asset, less depreciation/amortisation charges that would have been made if the impairment loss had not been recognised.

3.11. Other assets

Other assets include costs incurred in relation to future reporting periods.

3.12. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Parent's Articles of Association and registered with the National Court Register. Shares issued and not yet registered with the National Court Register as at the reporting date are recognised under equity. 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 relevant resolution, and from the effective portion of hedging instruments.

Exchange differences on translating foreign operations are disclosed in accordance with the policy described in note 3.3.2.

3.13. Trade payables and liabilities under borrowings

For the policy applied to measure trade payables, liabilities under borrowings and other financial liabilities, see note 3.4.3.

3.14. Employee benefits

3.14.1. Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to make further payments. Contributions payable to a defined contribution plan are recognised as cost of employee benefits and charged to profit or loss in the period when the employee rendered the related service. A prepayment is recognised as an item under other receivables 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.

3.14.2. Employee benefit obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the service is provided.
The Group recognises liability under employee benefit obligations for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to

pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefits at the KRUK Group include salaries, bonuses, paid holidays and social security contributions, and are recognised as expenses when incurred.

The KRUK Group's long-term employee benefit obligations equal future benefits to be received by the employee in exchange for the provision of services in the current and previous periods.

3.14.3. Share-based payments (management stock option plan)

Value of rights granted to employees to acquire the Parent shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The value of the plan is initially measured as at the grant date. Value of the options is recognised in the Group's profit or loss over the period during which employees become unconditionally entitled to acquire the shares. The value of the plan is reviewed on settlement by changing the number of options that will vest unconditionally. Any changes in the value of the plan are disclosed as an adjustment to values previously posted in the current period.

Valuation of the plan has been performed using the Black-Scholes model. The selected model takes into account all the key factors affecting the cost recognised by the Group, including:

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

For the purpose of the valuation, 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 will purchase the shares corresponding to such options between the option vesting date and the plan closing date. The management stock option plans are described in note 21.

3.15. Provisions

A provision is recognised if the KRUK Group has a present (legal or constructive) obligation arising from past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where this amount is material, the provision is estimated by discounting expected future cash flows based on a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks related to the specific liability.

The KRUK Group recognises provisions for the risk of partial refund of the commissions in the event of early loan repayment (see Note 28).

Provisions for retirement gratuities are estimated using the actuarial method. These provisions are remeasured no more frequently than every three years.

3.16. Operating income

3.16.1. Revenue from debt collection

Revenue from debt collection includes revenue from purchased debt portfolios (investments in debt portfolios measured at amortised cost) and revenue from debt collection services (fee-based credit management).

Revenue from purchased debt portfolios

Revenue from purchased debt portfolios includes mainly interest income on investments in debt portfolios and is presented in the statement of profit or loss under 'Interest income on debt portfolios and loans measured at amortised cost'.

The credit risk-adjusted 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 of the investment in debt portfolios, and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the net carrying amount of the investment in debt portfolios measured at amortised cost in accordance with the regulations applicable to purchased credit-impaired financial assets, using an effective interest rate including an element that reflects that credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the carrying amount of the portfolio. All actual recoveries collected during the period are recognised as a decrease in the carrying amount of the portfolio. Moreover, any changes in the portfolio's value resulting from changes in the estimated timing and amounts of expected future cash recoveries for the portfolio are disclosed as 'Gain/(loss) on expected credit losses'.

Revenue from credit management services

Revenue from 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 a defined percentage of collected amounts, as provided for in the relevant contract with a business partner. Such revenue is presented in the statement of profit or loss under 'Revenue from other services'.
The Group does not capitalise the costs of concluding a credit management contract.

3.16.2. Revenue from loans

Revenue from loans includes mainly interest income on investments in loans and is presented in the statement of profit or loss under 'Interest income on debt portfolios and loans measured at amortised cost' and 'Interest income on loans measured at fair value', depending on the adopted measurement method.

Revenue from loans is calculated at the effective interest rate.

3.16.3. Revenue from provision of other services

Revenue from provision of other services includes, in addition to revenue from credit management services (described in section 3.16.1), revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, and auxiliary services provided to small and medium-sized enterprises. Revenue from provision of other services is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

3.17. Other income

Other income comprises operating income not directly related to the KRUK Group's main business objects. These include in particular income from sale and liquidation of property, plant and equipment, income/expenses from recharged services, damages received and paid, penalties and fines, and grants received.

Other income is recognised in the amount equal to transaction value.

3.18. Employee benefits expense

Employee benefits expense includes:

- salaries and social security contributions (including old-age and disability pension contributions),
- accrued holiday entitlements,
- old-age and disability pension provisions,
- bonus provisions,
- management stock option plan recognised in accordance with IFRS 2 *Share-based Payment,* and
- costs of other pay and non-pay employee benefits.

Employee benefits expense is recognised as an expense for the period to which it relates.

3.19. Services

Services include costs of services provided by third parties, such as debt collection, IT, legal and administrative support, short-term rental, property security, service charges, as well as management, packaging, postal and courier services.

The costs of services are charged to current period expenses.

3.20. Lease payments

Lease payments are accounted for in accordance with IFRS 16; see section 3.5.4.

3.21. Other expenses

Other expenses include:

- costs of court fees incurred as part of the in-court debt recovery process,
- promotion, advertising and entertainment costs,
- fees payable to the Polish Financial Supervision Authority and the Central Securities Depository of Poland,

- taxes and charges (including property tax, VAT, municipal and administrative charges),
- insurance costs,
- goodwill impairment losses,
- infrastructure maintenance costs,
- provision for straight-line fee refunds.

3.22. Finance income and costs

Finance income includes interest income on cash invested by the Group (net of income on purchased debt and revenue from loans advanced as part of operating activities, as described in section 3.4), dividends receivable and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period using the effective interest rate method. Dividend is accounted for in profit or loss of the period as at the date when the Group becomes entitled to receive the dividend.
Finance costs include interest expense related to external financing, derivatives and hedging instruments. 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.

3.23. Income tax

Income tax comprises current and deferred tax. Current and deferred tax is charged to profit or loss of the period except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.
When determining amounts of current and deferred tax, the Group takes into account the impact of uncertainty concerning potential additional tax liabilities. However, facts and circumstances which may materialize in the future, may have an effect on an assessment of correctness of the existing and past tax liabilities.
Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.
Deferred tax is recognised in respect of temporary differences between the amounts of assets and liabilities as disclosed in the statement of financial position and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither profit or loss of the period, nor taxable income,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be disposed of in the foreseeable future,
- initial recognition of goodwill.

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

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.

The Group 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.

3.24. Earnings per share

The Group presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period, adjusted for the number of treasury shares held by the Parent. Diluted earnings per share are calculated by dividing the adjusted profit or loss (adjusted by the share issue proceeds under the management stock option plan) 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. Dilution is a reduction in earnings per share or an increase in loss per share, assuming that the convertible instruments are converted, options or warrants are exercised, or ordinary shares are issued on satisfaction of certain conditions.

3.25. Segment reporting

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

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

3.26. New Standards and Interpretations not applied in these financial statements

A number of new Standards, amendments to Standards and Interpretations which were not yet effective for the annual periods ended December 31st 2020 have not been applied in preparing these consolidated financial statements. From among the new Standards, amendments to Standards and Interpretations, the ones discussed below may have an effect on the Company's financial statements. The Group intends to apply them to the periods for which they are effective for the first time.

3.26.1. **Amendments to existing standards and interpretations** approved by the European Union but not yet effective and not yet applied by the Group

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 2021:

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Amendments to IFRS 4 *Insurance Contracts*	The amendments extend the temporary exemption from IFRS 9 *Financial Instruments* by two years to annual periods beginning on January 1st 2023, for alignment with the effective date of IFRS 17 *Insurance Contracts* (replacing IFRS 4 *Insurance Contracts*).	The amendments have no significant effect on the consolidated financial statements.	January 1st 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* IFRS 4 *Insurance Contracts* and IFRS 16 *Leases: Interest Benchmark Reform – Phase 2*	The purpose of the amendments is to facilitate the provision of financial statements to users and to assist entities preparing IFRS-compliant financial statements to provide useful information in a case where a change in the benchmark rate results in a change in contractual cash flows or hedging relationships. The amendments provide for a practical expedient for certain changes in contractual cash flows and exemption from certain hedge accounting requirements.	The Group is currently assessing the effect of the amendments on the scope of disclosures presented in the consolidated financial statements.	January 1st 2021

3.26.2. Standards and interpretations issued but not yet adopted by the European Union

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the 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 Group does not expect the amendments to have a significant impact on its consolidated 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 recognised at present value rather than historical cost.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2023
Amendments to IFRS 3 *Business Combinations*, IAS 16 *Property,*	The package of amendments includes narrow-scope amendments to three standards:	The Group does not expect the amendments to have a	January 1st 2022

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Plant and Equipment, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as well as Annual Improvements to IFRSs 2018-2020 Cycle.	• Amendments to IFRS 3 *Business Combinations,* which update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations; • Amendments to IAS 16 *Property, Plant and Equipment,* which prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use; Instead, the company will recognise such sale proceeds and related cost in profit or loss for the period, • Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* which specify which costs a company should include when assessing whether a contract will be loss-making. The package also contains Annual Improvements to IFRSs 2018-2020 Cycle, which explain the terminology used and correct minor inconsistencies, omissions or contradictions between the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and Illustrative Examples in IFRS 16 *Leases*.	significant impact on its consolidated financial statements.	

4. Reporting and geographical segments

Reportable segments

Below, the Group presents its principal reportable segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated statement of profit or loss. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reportable 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 reportable segment is discussed below. The key performance metrics for each reportable segment are gross profit and EBITDA, which are disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit and EBITDA are used to measure the segment's performance since the management believes them to be the most appropriate metrics for the assessment of the segment's results against other entities operating in the industry.
The Group's operating activities concentrate in a few geographical areas: Poland, Romania, the Czech Republic, Slovakia, Germany, Spain and Italy.

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

- Poland,
- Romania,
- Italy,
- other foreign markets.

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

Revenue from credit management services and revenue from other products represent revenue from business partners.

For the financial year ended December 31st 2020	**Poland**		**Romania**	**Italy**	**Other foreign markets**	**Head Office**	**TOTAL**
	Poland excluding Wonga.pl [3]	**Wonga.pl [3]**					
Revenue	**543,572**	**78,409**	**314,961**	**117,171**	**83,905**	**-**	**1,138,018**
Purchased debt portfolios	497,860	-	298,745	107,175	72,561	-	**976,341**
including revision of recovery projections	*(38,329)*	-	*(9,393)*	*(96,450)*	*(61,099)*	-	***(205,271)***
Credit management services	22,006	-	13,475	9,997	11,344	-	**56,821**
Other products	23,705	78,409	2,741	**-**	**-**	**-**	**104,856**
Direct and indirect costs							**(605,894)**
Purchased debt portfolios	-		-	-	-	-	**(468,381)**
Credit management services	-		-	-	-	-	**(67,620)**
Other products	-		-	-	-	-	**(69,893)**
Gross profit[1]							**532,124**
Purchased debt portfolios	-		-	-	-	-	**507,959**
Credit management services	-		-	-	-	-	**(10,799)**
Other products	-		-	-	-	-	**34,963**
Administrative expenses	-		-	-	-	-	**(159,926)**
Other income	-	-	-	-	-	-	**19,792**
Other expenses (unallocated)	-	-	-	-	-	-	**(13,183)**
EBITDA [2]	276,832	16,271	220,513	(29,493)	(60,590)	(44,729)	**378,805**
Depreciation and amortisation	-		-	-	-	-	**(46,543)**

Finance income/costs	-		-	-	-	-	**(127,823)**
Profit before tax	-		-	-	-	-	**204,440**
Income tax	-		-	-	-	-	**(123,443)**
Net profit	-		-	-	-	-	**80,998**
Carrying amount of debt portfolios	**1,875,963**	**-**	**888,806**	**734,500**	**484,811**	**-**	**3,984,080**
Carrying amount of loans	**32,824**	**186,013**	**5,807**	**-**	**-**	**-**	**224,644**
Cash recoveries	**862,923**	**-**	**525,252**	**250,126**	**195,574**	**-**	**1,833,874**

[1] *Gross profit = operating income - operating expenses.*

[2] *EBITDA = operating profit – depreciation and* amortisation

For the financial year ended December 31st 2019

	Poland		Romania	Italy	Other foreign markets	Head Office	TOTAL
	Poland excluding Wonga.pl [3]	Wonga.pl [3]					
Revenue	**565,719**	**36,032**	**399,844**	**171,970**	**90,606**	**-**	**1,264,171**
Purchased debt portfolios	516,297	-	385,069	159,967	77,005	-	**1,138,338**
including revision of recovery projections	*35,709*	-	*121,479*	*(13,995)*	*(64,269)*	-	***78,924***
Credit management services	25,447	-	14,161	12,003*	13,601	-	**65,212***
Other products	23,975	36,032	614	**-**	**-**	**-**	**60,621**
Direct and indirect costs							**(599,136)**
Purchased debt portfolios	-	-	-	-	-	-	**(477,676)**
Credit management services	-	-	-	-	-	-	**(66,488)***
Other products	-	-	-	-	-	-	**(54,973)**
Gross profit[1]							**665,035**
Purchased debt portfolios	-	-	-	-	-	-	**660,663**
Credit management services	-	-	-	-	-	-	**(1,276)**
Other products	-	-	-	-	-	-	**5,648**
Administrative expenses	-	-	-	-	-	-	**(178,282)**
Other income	-	-	-	-	-	-	**8,687**
Other expenses (unallocated)	-	-	-	-	-	-	**(11,056)**
EBITDA [2]	318158	(9,723)	294151	(6,830)	(37,883)	(73,489)	**484,384**
Depreciation and amortisation	-	-	-	-	-	-	**(44,043)**
Finance income/costs	**-**	**-**	**-**	**-**	**-**	**-**	**(126,130)**

Profit before tax	-	-	-	-	-	-	314,210
Income tax	-	-	-	-	-	-	(37,153)
Net profit	-	-	-	-	-	-	**277,057**
Carrying amount of debt portfolios	**1,883,927**	-	**994,380**	**811,754**	**506,760**	-	**4,196,821**
Carrying amount of loans	**41,254**	**167,898**	**5,465**	-	-	-	**214,617**
Cash recoveries	**820,300**	-	**560,524**	**184,605**	**217,013**	-	**1,782,443**

** comparability was achieved by transferring the recognised goodwill impairment loss of PLN 13,112 from income to expenses.*

[1] *Gross profit = operating income - operating expenses.*
[2] *EBITDA = operating profit – depreciation and* amortisation
[3] *Wonga.pl data from the share purchase agreement date, i.e. April 30th 2019.*

5. Operating income including gain/(loss) on expected credit losses, change in investments, and other income/expenses from purchased debt portfolios

Interest income on debt portfolios and loans measured at amortised cost

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Interest income on debt portfolios	970,076	976,883
Interest income on loans	113,336	87,444
	1,083,412	1,064,327

Gain/(loss) on expected credit losses

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Gain/(loss) on expected credit losses from debt portfolios	29,249	184,451
Gain/(loss) on expected credit losses from loans	(23,106)	(38,151)
	6,143	146,300

Breakdown by reportable segments

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Revenue from purchased debt portfolios	976,341	1,138,338
Revenue from credit management services	56,821	65,212
Revenue from other services	104,856	60,621
	1,138,018	1,264,171

Income from financial assets measured at amortised cost

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Revenue from purchased debt portfolios	976,341	1,138,338
Revenue from loans	90,230	49,293
	1,066,571	1,187,631

Revenue from purchased debt portfolios and from loans are calculated on financial assets measured at amortised cost using the effective interest rate method.

Revenue from purchased debt portfolios

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Interest income	970,076	976,883
Other income/expenses from purchased debt portfolios (*)	(27,114)	(27,404)
Gain/(loss) on expected credit losses from purchased debt portfolios	29,249	184,451
Gain/(loss) on sale of debts	4,130	4,408
	976,341	1,138,338

** Other income/expenses from purchased debt portfolios include cost of the loyalty scheme, cost of overpayments and foreign exchange gain/(loss).*

Other income/expenses from purchased debt portfolios

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Foreign exchange gain/(loss)	(10,981)	(17,960)
Cost of the loyalty scheme	(9,513)	(4,456)
Cost of overpayments	(6,620)	(4,988)
	(27,114)	(27,404)

Gain/(loss) on expected credit losses from purchased debt portfolios

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Revision of recovery projections	(205,271)	78,924
Deviations of actual recoveries, decreases on early collections in collateralised cases, payments from original creditor.	234,520	105,527
	29,249	184,451

If necessary, as at the end of each quarter the Group updates the following parameters which are used to estimate future cash flows from debt portfolios measured at amortised cost:

a. risk premium,
b. period for which cash flows are estimated,
c. the value of expected future cash flows estimated using the current data and debt collection tools,
d. The Group analyses the impact of macroeconomic factors on projected recoveries; historically, no correlation between recoveries from purchased debt portfolios and the macroeconomic situation has been found.

Assumptions adopted in the valuation of debt portfolios

	Dec 31 2020	Dec 31 2019
Discount rate		
- risk premium*	8.10% - 170.19%	8.10% - 113.17%
Period for which collections have been estimated	Jan 2021–Jan 2041	Jan 2020–Dec 2034
Undiscounted value of expected future recoveries	7,942,787	7,563,217

** Applicable to 99% of debt portfolios.*

Projected estimated schedule of recoveries from debt portfolios (undiscounted value)

PLN '000	Dec 31 2020	Dec 31 2019
Period		
Up to 12 months	1,568,291	1,662,753
From 1 to 2 years	1,405,952	1,585,210
From 2 to 3 years	1,177,335	1,277,781
From 3 to 4 years	864,985	938,026
From 4 to 5 years	635,514	706,581
From 5 to 10 years	1,631,733	1,386,739
Over 10 years	658,977	6,127
	7,942,787	7,563,217

The forecast period was extended based on historical analyses of realised and expected recoveries from the oldest debt portfolios purchased by the Kruk Group.

Revenue from loans

Revenue from loans measured at amortised cost

PLN '000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Interest income	113,336	87,444
Allowance for expected credit losses	(23,106)	(37,949)
Foreign currency gains/(losses)	-	(201)
	90,230	49,293

Revenue from loans measured at fair value

PLN '000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Interest income	6,831	-
Remeasurement	(1,803)	-
	5,029	-

Revenue from provision of other services

Revenue from provision of other services includes revenue from fee-based credit management services as well as revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, and auxiliary services provided to small and medium-sized enterprises.

The performance obligation arises when a contract is executed and the data necessary to launch the debt recovery process is made available. Payment for services is made within 14-30 days of the respective invoice date.

Revenue from fee-based credit management comprises commission fees ranging from 2% to 49% of the collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key business partner accounts for 6% of total revenue from fee-based credit management (2019: 2%).

Other income

PLN '000	***Note***	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Grants		9,222	-
Adjustment to valuation of stock option plan *		5,538	-
Settlement of lease payments under terminated contracts		1,050	-
Gain on sale of property, plant and equipment		597	287
Recovery of written-off receivables and expenses		483	2,444
Compensation for motor damage		374	644
Rent concessions related to COVID-19		250	-
Other cooperation		127	366
Re-billed costs of services and court fees		23	2,188
Reversal of impairment losses on receivables	*29.1*	18	77
Gain on bargain purchase		-	1,981
Other markets		2,110	700
		19,792	8,687

** The item reflects a positive adjustment to the cost of the equity-settled stock option plan related to inclusion in the valuation model of dividends paid of PLN 5,538 thousand.*

In the reporting period, the Group companies received government grants in connection with the pandemic, including grants from the Labour Office paid out of the Guaranteed Employee Benefits Fund under the employment protection agreement to subsidise the remuneration of employees affected by economic downtime or reduced working hours as a result of the COVID-19 pandemic. In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* the Group applies the income approach, recognising grants in profit or loss as a separate item of other income when there is reasonable assurance that the condition for obtaining a grant will be fulfilled and the grant will be received.

6. Services

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Credit management services[1]	(34,670)	(31,710)
IT services	(18,249)	(14,630)
Legal support services[2]	(18,164)	(18,566)
Administrative and accounting support services	(15,428)	(23,885)
Postal and courier services	(10,613)	(17,040)
Banking services[3]	(10,535)	(9,918)
Space rental and service charges	(7,929)	(8,304)
Communications services	(7,056)	(7,171)
Marketing and management services	(4,672)	(9,305)
Printing services	(1,921)	(3,530)
Security	(1,645)	(1,743)
Other auxiliary services	(1,620)	(2,329)
Repair of vehicles	(1,171)	(1,299)
Repair and maintenance services	(546)	(404)
Recruitment services	(408)	(1,243)
Packing services	(255)	(367)
Other rental	(28)	(906)
Transport services	(18)	(39)
	(134,928)	(152,389)

[1] Costs of debt management services provided by external service providers.
[2] Legal assistance mainly relates to debt portfolio management.
[3] Costs of operating bank accounts, transcollect and direct debit services.

7. Other expenses

PLN '000	***Note***	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Court fees		(192,073)	(167,668)
Taxes and charges		(38,114)	(43,827)
Goodwill impairment losses	*14*	(25,051)	(13,114)
Provision for possible differences relative to straight-line basis settlement	*28*	(21,852)	(7,156)
Raw materials and consumables used		(7,952)	(12,009)
Advertising		(6,029)	(12,618)
Business trips		(1,620)	(5,894)
Staff training		(1,392)	(4,029)
Motor insurance		(1,238)	(1,108)
Property insurance		(688)	(812)
Membership fees		(435)	(414)
Losses caused by motor damage		(417)	(531)
Impairment losses on receivables	*29.1*	(415)	(147)
Non-compete agreements		(357)	(414)
Entertainment expenses		(236)	(2,065)
Non-deductible VAT		(169)	(440)

Re-billed costs of services	-	(1,546)
Refund of litigation costs	-	(616)
Other consultancy services	-	(493)
Other markets	(4,176)	(4,187)
	(302,214)	(279,088)

8. Employee benefits expense

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Salaries and wages	(270,314)	(282,149)
Old-age and disability pension contributions (defined contribution plans)	(20,036)	(20,756)
Social security and other employee benefits	(45,449)	(42,713)
Contribution to the State Fund for the Disabled	(1,681)	(1,722)
Equity-settled cost of stock option plan	(4,382)	(9,658)
	(341,862)	(356,998)

9. Finance income and costs

Recognised in profit or loss for the current period

Finance income

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Interest income on bank deposits	89	211
	89	211

Finance costs

Finance cost/income presented in the statement of cash flows does not include exchange differences on intragroup transactions.

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Interest and commission expense on financial liabilities measured at amortised cost	(100,898)	(115,417)
including interest	*(85,792)*	*(102,090)*
Net foreign exchange losses	(8,835)	(11,781)
Interest income/expense on hedging instruments – IRS	(4,422)	(1,560)
Interest income/expense on derivative instruments – FORWARD	-	3,432
Interest income/expense on derivative instruments – CIRS	(13,759)	(1,016)
	(127,913)	(126,341)

Effect of exchange rate movements on statement of profit or loss

PLN '000	*Note*	**Jan 1-Dec 31 2020**	**Jan 1-Dec 31 2019**
Realised exchange gains/(losses)	*9*	4,384	(6,431)
Unrealised exchange gains/(losses)	*9*	(13,219)	(5,350)
Settlement of forward contracts	*9*	-	3,432
Revaluation of debt portfolios due to exchange rate movements	*5*	(10,981)	(17,960)
Remeasurement of loans due to exchange rate movements	*5*	-	(201)
		(19,816)	(26,510)

Recognised in other comprehensive income

Exchange differences on translating foreign operations

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Exchange differences on translating foreign operations	111,579	(23,550)
Attributable to:		
Owners of the Parent	111,579	(23,550)
Non-controlling interests	-	-
Finance cost recognised directly in other comprehensive income	111,579	(23,550)

10. Income tax

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

PLN '000	***Note***	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Current income tax			
Current income tax payable		(26,782)	(31,872)
Deferred income tax			
Related to temporary differences and their reversal	*17*	(96,661)	(5,282)
Income tax recognised in profit or loss		(123,443)	(37,153)
Income tax recognised in comprehensive income		(123,443)	(37,153)

Reconciliation of effective tax rate

The effective tax rate differs from the applicable tax rates as the consolidated data includes primarily data of entities whose operations are subject to deferred income tax upon realisation of income or payment of dividend.

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Profit before tax	204,441	314,210
Tax calculated at the Parent's rate (19%)	(38,844)	(59,700)
Effect of application of other tax rates abroad and effect of deferred tax	3,724	7,738
Effect of non-deductible expenses/non-taxable income*	(88,323)	14,809
Income tax recognised in profit or loss	(123,443)	(37,153)
Effective tax rate (%)	60.38%	11.82%

**of which PLN 121,887 thousand was recognised on account of deferred tax liabilities resulting from a change in the planned distribution of income from subsidiaries to KRUK S.A. over the next 36 months, accounting for 90% of the effect on the effective tax rate for the period January 1st – December 31st 2020.*

Tax risk

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent amendments, both in Poland and in other EU countries where the Group operates, 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 plus relatively high interest, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, the tax risk in Poland and selected other countries where the Group operates 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.

The Group believes that it has paid all due taxes, fines and default interest in a timely manner.

In respect of all uncertain tax items, where the current legislation and communication with tax authorities do not provide sufficient guidance, the Group analysed the existing tax laws and regulations and their interpretations, and applied them correctly.

The period for which tax settlements may be subject to tax audit is four years in Spain, five years in Poland, the Czech Republic and Germany, six years in Italy, and seven years in Romania and Slovakia. As a result, the amounts disclosed in the financial statements may be changed at a later date after they are finally determined by tax authorities.

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

As at Dec 31 2020 *PLN '000*	***Note***	**Dec 31 2020**	**Dec 31 2019 restated**
Assets			
Non-current assets			
Property, plant and equipment	*12*	91,864	82,973
Other intangible assets	*13*	50,729	50,252
Goodwill	*14*	23,916	47,206
Investments	*15*	2,691,651	2,820,113
Derivatives	*24*	-	3,820
Hedging instruments	*25*	-	399
Deferred tax asset	*17*	31,180	-
Total non-current assets		2,889,340	3,004,763
Current assets			
Inventories	*16*	32,069	34,692
Investments	*15*	1,517,073	1,591,325
Trade receivables	*18*	16,804	23,988
Other receivables	*18*	28,357	31,852
Other assets	*20*	13,836	3,020
Cash and cash equivalents	*19*	145,552	150,274
Total current assets		1,753,691	1,835,151
Total assets		4,643,031	4,839,914
Equity and liabilities			
Equity			
Share capital	*21*	19,011	18,972
Share premium		310,430	307,192
Cash flow hedging reserve		(14,783)	78
Translation reserve		81,360	(30,219)
Other capital reserves		103,626	104,582
Retained earnings		1,544,127	1,557,821
Equity attributable to owners of the Parent		2,043,771	1,958,426
Non-controlling interests		(311)	667
Total equity		2,043,460	1,959,093
Non-current liabilities			
Borrowings, debt securities and leases	*22*	1,585,898	2,458,269
Deferred tax liability	*17*	134,339	6,498
Provisions	*28*	13,463	10,196
Derivatives	*24*	11,236	-
Hedging instruments	*25*	18,386	3,924
Total non-current liabilities		1,763,322	2,478,887

Current liabilities			
Borrowings, debt securities and leases	*21*	636,278	247,458
Trade and other payables	*27*	112,227	101,303
Income tax payable		5,223	6,673
Employee benefit obligations	*26*	42,860	39,343
Provisions	*28*	39,661	13,982
Total current liabilities		836,249	408,760
Total liabilities		2,599,571	2,880,821
Total equity and liabilities		4,643,031	4,839,914

Current and non-current items of the statement of financial position are presented based on expected cash flows.

12. Property, plant and equipment

Gross carrying amount of 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 carrying amount as at Jan 1 2019	56,748	31,928	32,550	7,248	1,329	129,803
Acquisition resulting from business combinations	3,734	141	-	-	-	3,875
Purchase	4,885	8,085	6,211	338	2,075	21,594
Sale/ liquidation	(68)	(1,586)	(1,845)	(47)	(2,712)	(6,258)
Effect of exchange rate changes	(709)	(69)	(64)	(61)	(4)	(907)
Gross carrying amount as at Dec 31 2019	64,591	38,499	36,853	7,478	687	148,107

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Property, plant and equipment under construction**	**Total**
Gross carrying amount as at Jan 1 2020	64,591	38,499	36,853	7,478	687	148,107
Purchase	30,556	5,395	3,965	544	1,848	42,308
Sale/ liquidation	(707)	(419)	(6,217)	(864)	(2,217)	(10,424)
Effect of exchange rate changes	2,883	818	957	672	20	5,350
Gross carrying amount as at Dec 31 2020	97,323	44,293	35,558	7,830	338	185,341

Accumulated depreciation

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation as at Jan 1 2019	(57)	(20,785)	(12,527)	(3,403)	-	(36,772)
Depreciation	(16,127)	(5,804)	(8,884)	(1,340)	-	(32,154)
Decrease resulting from sale/ liquidation	17	1,563	1,522	140		3,243
Effect of exchange rate changes	143	209	132	64		549
Accumulated depreciation as at Dec 31 2019	(16,024)	(24,817)	(19,755)	(4,538)	-	(65,134)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation as at Jan 1 2020	(16,024)	(24,817)	(19,755)	(4,538)	-	(65,134)
Depreciation	(16,076)	(6,615)	(7,370)	(2,066)	-	(32,127)
Decrease resulting from sale/ liquidation	348	422	5,296	356	-	6,422
Effect of exchange rate changes	(1,019)	(640)	(590)	(388)		(2,637)
Accumulated depreciation as at Dec 31 2020	(32,771)	(31,651)	(22,419)	(6,636)	-	(93,476)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount						
As at Jan 1 2019	56,691	11,143	20,024	3,845	1,329	93,032
As at Dec 31 2019	48,567	13,682	17,097	2,940	687	82,972
As at Jan 1 2020	48,567	13,682	17,097	2,940	687	82,972
As at Dec 31 2020	64,552	12,642	13,139	1,194	338	91,864

No impairment losses were recognised in 2020 and 2019.

Right of use

PLN '000	Dec 31 2020	Dec 31 2019
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	48,598	56,079
Plant and equipment	308	492
Vehicles	16,423	18,788
	65,329	75,359
Cost of amortisation of right-of-use assets, by class of underlying asset		
Buildings and structures	(16,243)	(16,063)
Plant and equipment	(183)	(182)
Vehicles	(6,637)	(8,872)
	(23,063)	(25,118)
Increase in right-of-use assets	17,649	11,097
Right-of-use assets as at acquisition of Wonga.pl	-	3,734
Decrease in right-of-use assets due to liquidation/termination of contract	(1,085)	(254)
Translation differences	(2,380)	511
Carrying amount of right-of-use assets, by class of underlying asset at end of period		
Buildings and structures	51,491	48,598
Plant and equipment	130	308
Vehicles	9,589	16,423
	61,211	65,329
Interest expense relating to lease liabilities	2,546	2,767
Cost relating to variable lease payments not included in the measurement of lease liabilities	11	33
Total cash outflow in connection with leases	26,552	18,593

13. Other intangible assets

PLN '000

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Gross carrying amount of intangible assets					
Gross carrying amount as at Jan 1 2019	61,674	369	425	-	62,468
Acquisition resulting from business acquisitions	14,688	-	-	-	14,688
Produced internally	7,181	-	-	-	7,181
Purchase	5,272	-	-	976	6,248
Liquidation	(7,452)	-	(356)	-	(7,808)
Effect of exchange rate changes	(303)	-	-	-	(303)
Gross carrying amount as at Dec 31 2019	81,060	369	69	976	82,474
Gross carrying amount as at Jan 1 2020	81,060	369	69	976	82,474
Produced internally	2,065	-	-	-	2,065

Purchase	11,310	-	327	2,347	13,983
Liquidation	(3,554)	-	(177)	-	(3,731)
Effect of exchange rate changes	886	-	-	-	886
Gross carrying amount as at Dec 31 2020	91,766	369	219	3,323	95,677
					-

PLN '000

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation					
Accumulated amortisation as at Jan 1 2019	(28,222)	(369)	-	-	(28,591)
Amortisation	(11,889)	-	-	-	(11,889)
Decrease resulting from sale/ liquidation	8,106	-	-	-	8,106
Effect of exchange rate changes	152				152
Accumulated amortisation as at Dec 31 2019	(31,853)	(369)	-	-	(32,222)
Accumulated amortisation as at Jan 1 2020	(31,853)	(369)	-	-	(32,222)
Amortisation	(14,416)	-	-		(14,416)
Decrease resulting from sale/ liquidation	2,350	-	-	-	2,350
Effect of exchange rate changes	(661)	-			(661)
Accumulated amortisation as at Dec 31 2020	(44,578)	(369)	-	-	(44,948)

PLN '000

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2019	33,452	-	425	-	33,877
As at Dec 31 2019	49,207	-	69	976	50,252
As at Jan 1 2020	49,207	-	69	976	50,252
As at Dec 31 2020	47,188	-	219	3,323	50,729

No impairment losses were recognised in 2020 and 2019.

14. Goodwill and accounting for acquisition of subsidiary

PLN '000	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK Espana S.L.	ERIF BIG S.A.	AgeCredit S.r.l	Wonga.pl sp. z o.o.	Total
Gross carrying amount as at Jan 1 2019	299	5,002	47,977	725	8,007		62,010
Increase	-	-	-	-	-		0
Decrease	-	-	-	-	-		0
Translation differences	-	(81)	(1,795)	-	184		(1,692)
Gross carrying amount as at Dec 31 2019	299	4,921	46,182	725	8,191		60,318

Gross carrying amount as at Jan 1 2020	299	4,921	46,182	725	8,191	60,318
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Translation differences	-	-	1,761	-	-	1,761
Gross carrying amount as at Dec 31 2020	299	4,921	47,943	725	8,191	62,079
Impairment losses						
Impairment loss as at Jan 1 2019	-	-	-	-	-	-
Increase	-	(4,921)	-	-	(8,191)	(13,112)
Decrease	-	-	-	-	-	-
Impairment loss as at Dec 31 2019	-	(4,921)	-	-	(8,191)	(13,112)
Impairment loss as at Jan 1 2020	-	(4,921)	-	-	(8,191)	(13,112)
Increase	-	-	(25,051)	-	-	(25,051)
Decrease	-	-	-	-	-	-
Impairment loss as at Dec 31 2020	-	(4,921)	(25,051)	-	(8,191)	(38,163)
Net carrying amount						
As at Jan 1 2019	299	5,002	47,977	725	8,007	62,010
As at Dec 31 2019	299	-	46,182	725	-	47,206
As at Jan 1 2020	299	-	46,182	725	-	47,206
As at Dec 31 2020	299	-	22,892	725	-	23,916

On April 30th 2019, the Parent purchased 100% of the shares in Wonga.pl Sp. z.o.o. from Wonga Worldwide Limited (in administration). Wonga.pl specialises in short-term and hire purchase online lending on the Polish market. The economic substance of the transaction is an acquisition of a company. The transfer of control to the KRUK Group took place on signing the agreement. As a result of accounting for the acquisition of Wonga Polska Sp. z o.o. there was a gain on bargain purchase of PLN 1,981 thousand (recognised in the consolidated statement of profit or loss as other income). KRUK S.A. paid PLN 835 thousand in cash to Wonga Worldwide Limited (in administration) in exchange for 100% of Wonga Polska Sp. z o.o.'s assets, whose fair value as at the acquisition date was PLN 2,815 thousand.

As part of the acquisition, Wonga.pl also received a PLN 96,191 thousand loan to repay its day-to-day liabilities to Wonga Worldwide Limited.

As part of the transaction, KRUK S.A. acquired:

- loans with a gross carrying amount of PLN 113,117 thousand; the best estimate as at the acquisition date of contractual cash flows which cannot be reliably expected to occur, discounted at market discount rates determined based on newly advanced loans, is PLN 25,743 thousand; fair value of the loans is PLN 87,373 thousand;

- gross receivables of PLN 746 thousand; the best estimate as at the acquisition date of the contractual cash flows which cannot be reliably expected to occur is PLN 41 thousand; fair value of receivables is PLN 705 thousand.

Wonga.pl's revenue and losses for the period from the acquisition date to the end of the reporting period were PLN 36,032 thousand and PLN -18,462 thousand, respectively.

Revenue and losses of Wonga.pl measured in accordance with the statutory rules for the period from the beginning of 2019 to the end of the reporting period amounted to PLN 69,835 thousand and PLN -20,192 thousand, respectively.

The acquiree data was recognised in the consolidated financial statements of the KRUK Group as at the acquisition date, i.e. April 30th 2019.

The Group estimated that if the acquisition had taken place on January 1st 2019, the Group's consolidated revenue and consolidated profit for the period from the beginning of the year to the end of the reporting period would amount to PLN 1,268,394 thousand and PLN 267,912 thousand, respectively. In estimating the above amounts, it was assumed that the fair value adjustment recognised at the acquisition date would be the same as at January 1st 2019.

The KRUK Group acquired Wonga with a view to increasing its market share in Polish consumer lending market. The acquisition was accounted for in accordance with IFRS 3. Following the accounting for the transaction, there are no non-controlling interests in the acquiree.

The purchase agreement provides for funding of the acquiree's day-to-day liabilities. Under the agreement, Kruk granted a loan to Wonga.pl to finance the payment of its day-to-day liabilities towards Wonga Worldwide Limited (in administration).

The acquisition was accounted for provisionally (which at the same time represented final accounting for the acquisition cost) in the Group's consolidated financial statements for 2019.

Impairment testing of cash-generating units which include goodwill

Impairment tests are performed by comparing the carrying amount of cash-generating units (CGUs) with their recoverable amount. The recoverable amount is calculated based on value in use.

For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest cash-generating units (not larger than the Group's operating segments described in note 4) for which goodwill is monitored for internal management purposes.

Recoverable amount of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units. In order to perform goodwill tests, cash-generating units associated with given goodwill were defined first. In the case of Espand Soluciones de Gestion S.L., which was acquired in 2016 and subsequently merged with KRUK España S.L,. the cash-generating unit in 2017 was the credit management business (debt collection services for unrelated undertakings), as such was the company's business profile prior to the acquisition and these activities were continued. The key assumption underlying the calculation of recoverable amount is the level of margin earned on the credit management services provided to clients. The assumptions adopted are based on historical performance, current knowledge of the credit management market and the potential of operating structures.

Next, a four year forecast of cash flows related to this activity was made. To calculate the discount rate, the Group uses the weighted average cost of capital for the debt collection industry, broken down into individual countries where the tested asset exists. To calculate the cost of equity, the Group applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets (in Spain, the weighted average cost of capital for the debt collection industry was 6% as at December 31st 2020 and 6.82% as at December 31st 2019). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 1.35% for Spain (as at December 31st 2019: 1.49%).

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In 2020, following a decrease in projected future cash flows from the credit management business (cash-generating unit), an impairment loss of PLN 25,051 thousand was recorded on Espand goodwill (as at December 31st 2019, no impairment loss was recognised on Espland goodwill).

Sensitivity analysis for Espand goodwill

The Group performed a sensitivity analysis of Espand goodwill impairment tests, assuming a change in the weighted average cost of capital based on two scenarios of Kruk Espana Inkaso's performance. The value in use of the assets was calculated based on the average of the two scenarios.

The results are shown in the table below:

Value in use of the assets	**weighted average cost of capital**		
PLN '000	**6.0%**	**5.5%**	**6.5%**
Scenario 1	49,515	56,520	44,633
Scenario 2	28,207	31,934	25,607
Value for a 50/50 probability	38,861	44,227	35,120

The analysis showed that a change in the weighted average cost of capital within the assumed range does not affect the test results.

The recoverable amount estimation is a complex process, requiring subjective assumptions. Even relatively minor changes in key assumptions may have an effect on the recoverable amount.

The table below presents the excess of the recoverable amount over the carrying amount (headroom) under current assumptions, i.e. WACC at 6.0%, and the maximum discount rate at which the carrying amount of CGU ESPANF Goodwill is equal to the recoverable amount.

PLN '000	Dec 31 2020 Headroom	Dec 31 2020 Marginal discount rate
Kruk Espana Inkaso (CGU ESPAND Goodwill)	13,250	8.24%

15. Investments

PLN '000	Dec 31 2020	Dec 31 2019
Investments in debt portfolios	3,984,080	4,196,821
Loans measured at amortised cost	152,666	214,617
Loans measured at fair value	71,978	-
	4,208,724	4,411,438

Investments measured at amortised cost

PLN '000	Dec 31 2020	Dec 31 2019
Investments in debt portfolios	3,984,080	4,196,821
Loans measured at amortised cost	152,666	214,617
	4,136,746	4,411,438

Investments in debt portfolios

For the rules followed in the valuation of investments in debt portfolios, see Note 3.4.1. Investments in debt portfolios are divided into the following main categories:

PLN '000	Dec 31 2020	Dec 31 2019
Unsecured portfolios	3,285,231	3,381,998
Secured portfolios	698,849	814,823
	3,984,080	4,196,821

Unsecured portfolios are retail portfolios. Secured portfolios include mortgages as well as corporate portfolios.

For information on the assumptions made in the valuation and revaluation of debt portfolios and the adopted schedule of cash receipts (undiscounted value), see Note 5. Revenue in '*Revaluation of debt portfolios'.*

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios).

Sensitivity analysis – revision of projections

The 1% increase in all projected collections would result in an increase in the value of portfolios and thus in net profit/(loss) for the reporting period by PLN 34,136 thousand, while the 1% decrease in all projected collections would result in a decrease in the value of portfolios, thus reducing net profit/(loss) by PLN 34,136 thousand for the data as at December 31st 2020 (a PLN 36,007 thousand increase/decrease, respectively, for the data as at December 31st 2019).

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**	**increase in collections by 100 bps**	**decrease in collections by 100 bps**
Dec 31 2020				
Investments in debt portfolios	34,136	(34,136)	-	-
Dec 31 2019				
Investments in debt portfolios	36,007	(36,007)	-	-

Sensitivity analysis – time horizon

The sensitivity analysis assumes extension or reduction of the projection period and a simultaneous increase or decrease in projected collections (for one-year extension projected collections increased by PLN 10,706 thousand, while for one-year reduction projected collections decreased by PLN 11,163 thousand; 2019: PLN 32,550 thousand and PLN 78,689 thousand, respectively). The discrepancy in the effect between periods is due to the longer time horizon used in the valuation of debt portfolios as at December 31st 2020. Extending the projection period by another year translates into a lower value compared with extension of a shorter baseline projection period by one year (due to the discount over time mechanism).

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	extension by one year	**reduction by one year**	**extension by one year**	**reduction by one year**
Dec 31 2020				
Investments in debt portfolios	56	(74)	-	-
Dec 31 2019				
Investments in debt portfolios	1,977	(6,166)	-	-

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans, see note 29.

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

PLN '000	
Carrying amount of investments in debt portfolios as at Jan 1 2019	**4,077,718**
Purchase of debt portfolios	780,998
Purchase price adjustment for discount	-
Cash recoveries	(1,782,443)
Increase/(decrease) in liabilities to indebted persons due to overpayments	4,988
Valuation of loyalty scheme*	4,456
Revenue from purchased debt portfolios	1,138,338
Translation differences on debt portfolios	(27,234)
Carrying amount of investments in debt portfolios as at Dec 31 2019	**4,196,821**
Carrying amount of investments in debt portfolios as at Jan 1 2020	**4,196,821**
Purchase of debt portfolios	456,224
Purchase price adjustment for discount	(100)
Cash recoveries	(1,833,874)
Increase/(decrease) in liabilities to indebted persons due to overpayments	6,620
Valuation of loyalty scheme*	9,513
Revenue from purchased debt portfolios	976,341
Carrying amount of foreclosed property	(15,864)
Carrying amount of property sold	18,914
Translation differences on debt portfolios	172,329
Carrying amount of investments in debt portfolios as at Dec 31 2020	**3,984,080**

** The value of investments in debt portfolios is adjusted to account for the measurement of the loyalty scheme in connection with the recognition of costs related to the bonus plan under 'Other income/expenses from purchased debt portfolios'.*

Amount of undiscounted cash flows as at the date of portfolio purchase

PLN '000	**Debt portfolios purchased in 2020**	**Debt portfolios purchased in 2019**
Poland	818,747	756,597
Romania	110,223	502,019
Italy	-	164,174
Other foreign markets	115,061	153,811
	1,044,031	1,576,601

Joint arrangements

On July 29th 2016, the KRUK Group, acting through its related entities ProsperoCapital S.à.r.l of Luxembourg (“ProsperoCapital”) and Invest Capital Ltd. of Malta (“ICM”), entered into an agreement with International Finance Corporation (“IFC”) (an entity related to the World Bank) concerning joint purchase of debt portfolios in the Romanian market and outsourcing of their management to a jointly selected entity in accordance with a debt portfolio management strategy approved by both parties. The agreement is effective until August 3rd 2022, but may be extended by another four years. It is a significant agreement for the KRUK Group as it has enabled a considerable increase in market share in Romania. The agreement meets the criteria to be classified as a joint arrangement and is performed in the form of a joint operation; as such it is subject to disclosure in the consolidated financial statements based on a proportional share in assets and liabilities.

In making an assessment whether the agreement meets the criteria of joint control, the KRUK Group did not rely on subjective judgement. The rules governing joint control of ProsperoCapital were provided for in the agreements signed between the jointly-controlling parties:

- the KRUK Group and IFC hold respectively 67% and 33% rights to the assets and liabilities of ProsperoCapital;
- the debt portfolio purchase was financed through an issue of bonds by ProsperoCapital, 67% of which were acquired by ICM and 33% – by IFC; all the risks and benefits are allocated to the entity acquiring the bonds;
- a unanimous consent of both parties is required to make any material decision:
  - both parties must approve the debt management strategy (updated on a semi-annual basis) and the business plan
  - neither of the parties may unilaterally make any material changes in the company's structure or its managing bodies
- Any recoveries from the debt portfolio, which are used to finance redemption of the bonds, are distributed pro-rata to the parties' rights to assets;
- After expiry of the contractual term, the parties share the purchased debt (measured as at the agreement termination date) in accordance with the strategy.

In making an assessment that the agreement meets the criteria to be classified as a joint operation rather than a joint venture, the KRUK Group took into consideration:

- The economic substance of the transaction, according to which the KRUK Group invested in the purchase of debt portfolios and not in bonds of ProsperoCapital;
- The nature of payments under the bonds, which indicates that this is a ‘pass through’ transaction, as the redemption of the bonds is closely related to cash flows from the purchased debt portfolios;
- Under the executed agreement, the parties to the joint operation do not have the right to net assets but to assignment of the claims incorporated in the purchased debt portfolio for the purpose of satisfaction of any amounts that remain unpaid under the bonds after expiry of the agreement term.

As at December 31st 2020, the value of the KRUK Group’s investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 81,953 thousand (PLN 96,936 thousand as at December 31st 2019), while revenue shown in the statement of profit or loss was PLN 33,425 thousand (PLN 50,617 thousand as at December 31st 2019) (see Note 2.4).

Loans

In 2020, the Group continued to offer consumer loans. Loans are granted for up to PLN 20 thousand and their maturities range from 3 to 60 months. The loans bear interest at fixed or floating rates. Additional revenue comprises commission fees and arrangement fees.

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Loans measured at amortised cost	152,666	214,617
Loans measured at fair value	71,978	-
	224,644	214,617

Loans measured at amortised cost

As per the basket methodology described in section 3.4.1, the structure of loans measured at amortised cost at the end of the reporting periods was as follows:

	IFRS 9 classification	**Carrying amount as at Dec 31 2020**	**Carrying amount as at Dec 31 2019**
Loans measured at amortised cost			
	Basket 1	111,891	186,183
	Basket 2	27,677	34,789
	Basket 3	84,099	52,556
	POCI loans	1,092	2,408
		224,759	275,937
Impairment losses			
	Basket 1	11,330	21,298
	Basket 2	4,081	6,730
	Basket 3	56,681	33,293
	POCI loans	-	-
		72,093	61,320
Net carrying amount			
	Basket 1	100,561	164,886
	Basket 2	23,596	28,059
	Basket 3	27,418	19,263
	POCI loans	1,092	2,408
		152,666	214,617

Changes in the net carrying amount of loans measured at amortised cost are presented below.

PLN '000	
Value of loans measured at amortised cost as at Jan 1 2019	**40,807**
Loans acquired with Wonga.pl Sp. z o.o., at fair value	87,373
New disbursements	327,599
Repayments	(290,167)
Revenue from loans	87,444
Allowance for expected credit losses	(30,603)
Sale of loans	(7,346)
Currency translation differences	(490)
Value of loans measured at amortised cost as at Dec 31 2019	**214,617**
Value of loans measured at amortised cost as at Jan 1 2020	**214,617**
New disbursements	207,009
Repayments	(355,941)
Revenue from loans	113,336
Allowance for expected credit losses	(23,106)
Sale of loans	(3,606)
Currency translation differences	357
Value of loans measured at amortised cost as at Dec 31 2020	**152,666**

Changes in allowance for expected credit losses are presented in Note 29.1.

Sensitivity analysis – revision of projections

The note presents the effect of a change in projected collections on the net carrying amount of loans measured at amortised cost as the effect of the change on net profit/(loss).

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**	**increase in collections by 100 bps**	**decrease in collections by 100 bps**
Dec 31 2020				
Loans measured at amortised cost	1,656	(1,652)	-	-
Dec 31 2019				
Loans measured at amortised cost	2,143	(2,144)	-	-

Sensitivity analysis – time horizon

The note presents the effect of extending or reducing the repayment projection period by one month on the net carrying amount of loans measured at amortised cost as the effect of the change on net profit or loss.

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	extension by one month	**reduction by one month**	**extension by one month**	**reduction by one month**
Dec 31 2020				
Loans measured at amortised cost	(3,886)	4,179	-	-
Dec 31 2019				
Loans measured at amortised cost	(3,395)	1,848	-	-

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans, see note 29.

Loans measured at fair value

Changes in the carrying amount of loans measured at fair value are presented below.

PLN '000	
Value of loans measured at fair value as at Jan 1 2020	**-**
New disbursements	132,068
Repayments	(65,118)
Revenue from loans	6,831
Remeasurement	(1,803)
Sale of loans	-
Currency translation differences	-
Value of loans measured at fair value as at Dec 31 2020	**71,978**

Sensitivity analysis – revision of projections

The note presents the effect of a change in projected collections on the carrying amount of loans measured at fair value as the effect of the change on net profit or loss.

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**	**increase in collections by 100 bps**	**decrease in collections by 100 bps**
Dec 31 2020				
Loans measured at fair value	718	(718)	-	-
Dec 31 2019				
Loans measured at fair value	-	-	-	-

Sensitivity analysis – time horizon

The note presents the effect of extending or reducing the repayment projection period by one month on the carrying amount of loans measured at fair value as the effect of the change on net profit or loss.

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one month	**reduction by one month**	**extension by one month**	**reduction by one month**
Dec 31 2020				
Loans measured at fair value	(1,936)	640	-	-
Dec 31 2019				
Loans measured at fair value	-	-	-	-

Sensitivity analysis – interest rate

The interest rate on loans measured at fair value is 45%. Presented below is a sensitivity analysis for the interest rate applied to the fair-value measurement of loans:

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	1 pp increase in interest rate	**1 pp decrease in interest rate**	**1 pp increase in interest rate**	**1 pp decrease in interest rate**
Dec 31 2020				
Loans measured at fair value	(314)	320	-	-
Dec 31 2019				
Loans measured at fair value	-	-	-	-

16. Inventories (including property)

As at December 31st 2020, the Group made the reclassification described in the '*Change in accounting treatment due to reclassification'* section in Note 3.1 '*Changes in accounting policies'*.

PLN '000	**Dec 31 2020**	**Dec 31 2019 restated**
Real property	32,056	34,655
Other inventories	13	37
	32,069	34,692

As part of its operating activities, the Group forecloses property securing acquired debt. A portion of the collections is derived from the sale of such property on the open market.

PLN '000	
Carrying amount of property held as at Jan 1 2019	**35,188**
Carrying amount of foreclosed property	25,548
Carrying amount of property sold	(25,092)
Income from sale of property	(989)
Carrying amount of property held as at Dec 31 2019	**34,655**
Carrying amount of property held as at Jan 1 2020	**34,655**
Carrying amount of foreclosed property	15,864
Carrying amount of property sold	(19,000)
Income from sale of property	86
Translation differences on property valuation	451
Carrying amount of property held as at Dec 31 2020	**32,056**

Property is measured at the lower of cost and net realisable value.

As at December 31st 2020, the inventory write-down was PLN 1,761 thousand (December 31st 2019: PLN 1,918 thousand).

17. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Provisions	
	Dec 31 2020	**Dec 31 2019**	**Dec 31 2020**	**Dec 31 2019**
Property, plant and equipment	5,581	4,513	(5,659)	(4,909)
Intangible assets	-	-	(1,630)	(4,841)
Tax losses deductible in future periods	7,967	11,323	-	-
Trade and other receivables	-	121	(268)	(243)
Borrowings and other debt instruments	21,112	18,496	-	-
Employee benefit obligations	2,488	2,391	-	-
Provisions and liabilities	56	3,656	-	-
Investments	46,294	21,429	(179,100)	(58,435)
Hedge derivatives			-	-
Deferred tax assets/liabilities	83,498	61,930	(186,657)	(68,428)
Deferred tax assets offset against liabilities	(52,317)	(61,930)	52,317	61,930
Deferred tax assets/liabilities in the statement of financial position	31,180	-	(134,339)	(6,498)

The increase in deferred tax liability was mainly attributable to the change in income distributions from subsidiaries to KRUK S.A. expected over the next 36 months.

Change in temporary differences in the period

PLN '000

	As at Jan 1 2020	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2020	As at Jan 1 2019	Change in temporary differences recognised in profit or loss for current period	Change in temporary differences related to acquisition of Wonga.pl	As at Dec 31 2019
Property, plant and equipment	(396)	319	(78)	(421)	25	-	(396)
Intangible assets	(4,841)	3,211	(1,630)	(2,627)	(2,214)	-	(4,841)
Tax losses deductible in future periods	11,323	(3,357)	7,967	1,482	9,842	-	11,323
Trade and other receivables	(122)	(147)	(268)	(173)	51	-	(122)
Borrowings and other debt instruments	18,496	2,617	21,112	10,675	7,821	-	18,496
Employee benefit obligations	2,391	96	2,488	2,001	390	-	2,391
Provisions and liabilities	3,656	(3,601)	56	2,265	1,391	-	3,656
Investments	(37,006)	(95,799)	(132,806)	(22,384)	(22,861)	8,239	(37,006)
	(6,498)	(96,661)	(103,159)	(9,182)	(5,282)	8,239	(6,498)

The Group benefits from the regulation provided in IAS 12 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 and it is probable that the temporary differences will not reverse in the foreseeable future. The total amount of temporary differences underlying the unrecognised deferred tax liability on retained earnings as at December 31st 2020 was PLN 1,205,363 thousand (as at December 31st 2019: PLN 1,250,455 thousand).

Unrecognised deferred tax asset due to tax loss

Tax loss for a given financial year may be utilised over a period of five years, beginning in the year immediately following the year when the loss was incurred. Under Polish tax laws, up to 50% of a loss may be utilised in each of the years of the five-year period.

Tax losses (KRUK S.A. and Erif Bussines Solution) and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2020**	**Dec 31 2019**
Tax loss for 2014	Dec 31 2019	-	-
Tax loss for 2015	Dec 31 2020	-	698
Tax loss for 2016	Dec 31 2021	-	265
Tax loss for 2017	Dec 31 2022	-	18
Tax loss for 2018	Dec 31 2023	29,865	29,900
Tax loss for 2019	Dec 31 2024	1,135	1,150
		31,000	32,030
Applicable tax rate		19%	19%
Potential benefit of tax losses		5,890	6,086

**Data for 2019 also include losses of Secapital Polska, which will not be utilised due to the company's liquidation*.

Deferred tax assets of PLN 5,890 thousand (2019: PLN 6,086 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

In addition, a deferred tax asset for unrealised tax loss of PLN 11,588 thousand was reversed for the subsidiary KRUK Espana S. L. at the level of the consolidated financial statements. KRUK Espana S.L. can extend the tax loss utilisation period indefinitely.

18. Trade and other receivables

Trade receivables

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Trade receivables	16,804	23,988
	16,804	23,988
Long-term	-	-
Short-term	16,804	23,988
	16,804	23,988

Other receivables

PLN '000	Dec 31 2020	Dec 31 2019
Taxes receivable (other than income tax)	10,803	16,341
Receivables under security deposits and bid bonds	9,396	9,488
Receivables under collected debts	7,380	5,365
Other receivables	647	573
Receivables for court fees and stamp duty	131	85
	28,357	31,852

Taxes receivable (other than income tax) comprise mainly VAT receivable.

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

19. Cash and cash equivalents

PLN '000	Dec 31 2020	Dec 31 2019
Cash in hand	190	233
Cash in current accounts	145,362	150,041
	145,552	150,274

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see note 29.

20. Other assets

PLN '000	Dec 31 2020	Dec 31 2019
Expenses relating to future reporting periods	11,499	1,342
Insurance	669	866
Other markets	1,464	574
Development expense	204	238
	13,836	3,020

The increase in expenses relating to future reporting periods compared with the previous period is attributable, among other things, to increased acquisition of new licences and maintenance fees related to the deployment of new software.

21. Equity

Share capital

	Ordinary shares	
	2020	**2019**
'000		
Number of shares as at Jan 1	18,972	18,887
Issue of shares	39	85
Number of fully-paid shares at end of period	19,011	18,972
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at Jan 1	18,972	18,887
Par value as at Dec 31	19,011	18,972

Parent's shareholding structure

As at December 31st 2020, the share capital comprised 18,972 thousand registered shares carrying voting rights and the right to dividend and 39 thousand unregistered shares (December 31st 2019: 18,972 thousand registered shares).

as at Dec 31 2020

Shareholder	**Number of shares**	**Par value of shares (PLN '000)**	**Ownership interest (%)**
Piotr Krupa	1,827,613	1,828	9.63%
NN PTE (*)	2,457,398	2,457	12.95%
Aviva OFE	1,788,000	1,788	9.42%
PZU OFE	1,856,437	1,856	9.79%
Allianz OFE	1,009,299	1,009	5.32%
Other members of the Management Board	133,620	134	0.70%
Other shareholders	9,899,444	9,8999	52,18%
	18,971,811	18,972	100%
Other shareholders (unregistered shares)	39,234	39	
	19,011,045	19,011	

as at Dec 31 2019

Shareholder	**Number of shares**	**Par value of shares (PLN '000)**	**Ownership interest (%)**
Piotr Krupa	1,886,666	1,887	9.94%
NN PTE (*)	2,055,000	2,055	10.83%
Aviva OFE	1,740,000	1,740	9.17%

PZU OFE	1,056,178	1,056	5.57%
Other members of the Management Board	217,705	218	1.15%
Other shareholders	12,016,262	12,016	63.34%
	18,971,811	18,972	100%

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

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.

Pursuant to a resolution of the Parent's General Meeting of August 31st 2020, the Parent's net profit for 2019 was allocated to capital reserves for buyback of KRUK S.A. shares and to statutory reserve funds. As a result, 271 thousand shares were bought back at PLN 350.00 per share.

Share-based payments

Incentive scheme for 2015−2019

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

It was the second incentive scheme operated by the KRUK Group. Details of the previous 2011−2014 Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015. Under the 2015−2019 Incentive Scheme, eligible persons had the right to acquire the Parent's Series F shares on preferential terms set forth in the resolution. The eligible persons comprised members of the Management Board, including the President, as well as employees of the Parent and other Group companies, on condition they were in an employment relationship with the Parent or its subsidiary, or in other legal relationship under which they provided services to the Parent or its subsidiary, for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants was made. For the purposes of the 2015-2019 Incentive Scheme, the General Meeting approved a conditional increase in the Parent's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase was to grant the right to subscribe for Series F shares to holders of subscription warrants that were to be issued under the 2015−2019 Incentive Scheme. Holders of the subscription warrants were entitled to exercise the rights to subscribe for Series F shares attached to subscription warrants at an issue price equivalent to the average closing price of the Parent shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants other than the Parent's Management Board members were entitled to exercise the rights to subscribe for Series F shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas holders being Management Board members were able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants could not be exercised by their holders until the lapse of at least 12 months from the subscription date. The right to subscribe for Series F shares could be exercised by holders of subscription warrants no later than on December 31st 2021.

Warrants were issued in five tranches, one for each of the following years 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 on the basis of the Group's consolidated financial statements) increases at a CAGR of no less than 13% relative to the base year.

Under the Scheme, the Parent was able to finance purchase of Series F shares by the eligible persons on the terms defined in the resolution.

Subscription warrants could be inherited, but could not be encumbered and were not transferable.

Number of options	**Dec 31 2020**	**Dec 31 2019**
Number of options priced under the 2015−2019 Incentive Scheme at the beginning of the reporting period*:	837,976	818,208
Number of options priced under the 2015−2019 Incentive Scheme during the reporting period*:	35,400	19,768
Number of options priced under the 2015−2019 Incentive Scheme at the end of the reporting period*:	873,376	837,976
Number of options forfeited under the 2015−2019 Incentive Scheme during the reporting period**:	11,822	8,294
Number of options exercised under the 2015−2019 Incentive Scheme during the reporting period:	39,234	84,950
Number of options exercisable under the 2015−2019 Incentive Scheme at the end of the reporting period:	327,046	160,984
Issue price of options in the 2015−2019 Incentive Scheme	**83.52**	**83.52**

** The number of options priced includes all options priced under the Scheme, including forfeited options. Priced options are options granted.*

*** Forfeited options are priced options that have not been delivered for reasons provided for in the Rules of the Incentive Scheme.*

In 2020, the average share price was PLN 123.08 (2019: PLN 162.59).

As at December 31st 2020 and December 31st 2019, the liability under share-based payment transactions was PLN 0.

Tranche 1

86,435 Tranche 1 Subscription Warrants for 2015 were issued to eligible persons other than members of the Management Board of KRUK S.A. on July 1st 2016. On October 27th 2016, the Management Board members acquired 20,000 warrants under Tranche 1.

By the issue date of this report, 82,574 Tranche 1 warrants were converted into new Series F shares of KRUK S.A. Thus, 23,861 Tranche 1 warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 2

91,467 subscription warrants under Tranche 2 for 2016 were delivered on July 7th 2017 to eligible persons who were not Management Board members. On August 22nd 2017, 50,480 subscription warrants were delivered to the eligible Management Board members.

By the issue date of this report, 95,461 Tranche 2 warrants were converted into new Series F shares of KRUK S.A. 46,486 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 3

On July 3rd 2018, 85,853 Tranche 3 subscription warrants were issued to eligible persons other than members of the Management Board. On September 17th 2018, 54,344 subscription warrants were delivered to eligible Management Board members.

By the issue date of this report, 55,035 Tranche 3 warrants were converted into new Series F shares of KRUK S.A. 85,162 Tranche 3 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 4

On August 27th 2019, 115,528 Tranche 4 subscription warrants were issued to eligible persons other than members of the Management Board. On September 10th 2019, Management Board members subscribed for 89,768 Tranche 4 warrants.

By the issue date of this report, 33,759 Tranche 4 warrants were converted into new Series F shares of KRUK S.A. 171,537 Tranche 4 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 5

By resolution dated September 10th 2020, the Parent’s Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 5 for 2019 had been satisfied. On September 14th 2020, the Parent’s Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. On September 21st 2020, the Supervisory Board passed a resolution to approve the Management Board’s Resolution No. 158/2020 containing the list of Management Board members eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 5 subscription warrants under the 2015−2019 Incentive Scheme. On September 24th 2020, 91,596 subscription warrants were delivered to eligible Management Board members.

On October 13th 2020 and October 23rd 2020, 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 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. The Management Board decided to grant 120,390 subscription warrants to eligible persons other than Management Board members. Subscription warrants outstanding under Tranche 5 and not yet granted to eligible persons under the relevant resolution may be granted to eligible persons until the end of 2021 in accordance with Section 2.2 (e) of the Incentive Scheme, as adopted by Resolution No. 23/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020.

As at December 31st 2020 and as at the date of issue of this report, the Management Board members held no rights to KRUK S.A. shares other than those attached to the subscription warrants presented below.

Number of subscription warrants held by Management Board members as at Dec 31 2020

Name and surname	Number of warrants held under Tranche 1 for 2015	Number of warrants held under Tranche 2 for 2016	Number of warrants held under Tranche 3 for 2017	Number of warrants held under Tranche 4 for 2018	Number of warrants held under Tranche 5 for 2019
Piotr Krupa	7,000	10,820	14,556	20,564	20,000
Piotr Kowalewski*	2,003	2,003	2,003	2,003	6,596
Urszula Okarma	3,250	9,915	9,947	17,301	16,250
Michał Zasępa	-	-	9,947	17,301	16,250
Agnieszka Kułton**	3,250	9,915	9,947	17,301	16,250
Iwona Słomska***	-	-	9,947	17,301	16,250

** Piotr Kowalewski had been covered by the Incentive Scheme for 2015–2019 as an eligible person other than a member of the Management Board until May 28th 2020. Since May 29th 2020, when he assumed the position of member of the KRUK S.A. Management Board, Piotr Kowalewski has become entitled to acquire Tranche 5 subscription warrants as an eligible person being a member of the Management Board.*
*** Agnieszka Kułton, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until May 28th 2020.*
**** Iwona Słomska, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until July 31st 2020.*

Number of subscription warrants held by Management Board members as at December 31 2019

Name and surname	Position	Number of warrants held under Tranches 1, 2, 3 and 4 for 2015, 2016, 2017 and 2018
Piotr Krupa	CEO and President of the Management Board	52,940
Agnieszka Kułton	Member of the Management Board	40,413
Urszula Okarma	Member of the Management Board	40,413

Iwona Słomska	Member of the Management Board	27,248
Michał Zasępa	Member of the Management Board	27,248

Translation reserve

Exchange differences on translating subordinates include exchange differences on translating foreign operations.

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
InvestCapital Ltd.	86,460	19,456
SeCapital S.à r.l.	22,043	2,345
KRUK Italia	1,237	(285)
Kruk Deutschland GmbH	1,524	(639)
KRUK Espana S.L.	3,311	(320)
KRUK Romania S.r.l.	1,073	(253)
ItaCapital S.r.l	(10,790)	457
KRUK Česká a Slovenská republika s.r.o.	4,340	194
ProsperoCapital S.à r.l.	1,186	2,403
Other markets	1,195	192
	111,579	23,550

The change relative to the comparative period is attributable to an increase in currency exchange rates and an increase in assets.

22. Earnings per share

Basic earnings per share

As at December 31st 2020, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,977 thousand (2019: 18,916 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Net profit for period	80,998	277,057
Non-controlling interests	358	(667)
Net profit attributable to ordinary shareholders of the Parent	81,356	276,390

Weighted average number of ordinary shares

'000	*Note*	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Number of ordinary shares as at Jan 1	*21*	18,972	18,887
Effect of cancellation and issue		5	29
Weighted average number of ordinary shares in the period ended Dec 31		18,977	18,916
PLN			
Earnings per share		4.29	14.61

Dividend per share paid

PLN '000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Dividend paid from profit and retained earnings	-	94653
PLN		
Dividend per share	0.00	5.00

Diluted earnings per share

As at December 31st 2020, diluted earnings per share were calculated based on net profit attributable to ordinary shareholders of the Parent of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the diluted weighted average number of shares in the period covered by the financial statements of 19,259 thousand (2019: 19,326 thousand). The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	Dec 31 2020	Dec 31 2019
Weighted average number of ordinary shares in the period ended Dec 31	18,977	18,916
Effect of issue of unregistered shares not subscribed for	283	410
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)	19,259	19,326
PLN		
Earnings per share (diluted)	4.22	14.30

23. Borrowings, debt securities and leases

This note contains information on the Group's liabilities under borrowings, debt securities and leases, measured at amortised cost. For information on the Group's exposure to currency, liquidity and interest rate risks, see note 29.

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Non-current liabilities		
Secured borrowings	752,587	1,145,889
Liabilities under debt securities (unsecured)	769,933	1,267,601
Lease liabilities	63,379	44,779
	1,585,898	2,458,269
Current liabilities		
Current portion of secured borrowings	76,751	134,353
Liabilities under debt securities (unsecured)	544,314	93,575
Current portion of lease liabilities	15,213	19,530
	636,278	247,458

The amount of realised and unrealised exchange differences affecting financial liabilities in 2020 and 2019 was PLN -18,358 thousand and PLN -2,018 thousand, respectively.

Terms and repayment schedule of borrowings, debt securities and leases

PLN '000	**Currency**	**Nominal interest rate**	**Maturity***	**Dec 31 2020**	**Dec 31 2019**
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0-2.75pp; 1M EURIBOR + margin of 2.2-2.75pp;	2025	829,338	1,280,242
Liabilities under debt securities (unsecured)	PLN EUR	3M WIBOR + margin of 3.0-4.0pp 4.8% ** 3.59%	2025	1,314,247	1,361,176
Lease liabilities	EUR/PLN CZK	3M WIBOR or 1M EURIBOR + margin of 1.5-9.7pp 3.00 - 4.03%	2030	78,592	64,309
				2,222,177	2,705,727

**Year of maturity of the last liability*

*** Fixed interest rate on bonds issued in 2020*

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	**Interest**	**Present value of future minimum lease payments**
As at Dec 31 2020			
up to 1 year	21,153	252	20,901
from 1 to 5 years	43,067	589	42,478
	64,220	841	63,379
As at Dec 31 2019			

up to 1 year	20,186	656	19,530
from 1 to 5 years	46,309	1,530	44,779
	66,495	2,186	64,309

Security over assets

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Registered pledge over purchased debt portfolios financed with a credit facility, with assignment of claims, registered pledge over shares in SeCapital S.à r.l., registered pledge over bonds of Itacapital S.rl	2,641,605	2,451,924
Property, plant and equipment used under lease contracts	6,398	8,345
	2,648,003	2,460,269

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

24. Derivatives

In 2017, the Group concluded two foreign currency interest rate swaps (CIRS), under which the Group pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The contracts hedge the interest rate risk and the currency risk by effectively changing the debt contracted in PLN into liabilities denominated in EUR.

Contract 1: The Group 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).

Contract 2: The Group 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 provided 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).

Open outstanding IRS contracts held by KRUK Group companies as at December 31st 2020 and December 31st 2019:

Bank	Company	Type of transaction	Volume	Side of transaction - Buy /Sale of fixed rate	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 100,000,000.00	buy	3.06%	3.1% + 3M WIBOR	January 9th 2017 to June 4th 2021
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 90,000,000.00	buy	2.97%	3.0% + 3M WIBOR	January 13th 2017 to November 10th 2021

Interest payments are made on a three monthly basis.

The Group expects the contracts to generate cash flows and to affect its results until 2021.

25. Hedging instruments

Interest rate risk hedges

The Group's exposure to interest rate risk arises mainly from borrowings and debt securities issued (Notes 23 and 29.3).

It has been concluded that effective implementation of the Company's growth strategy requires, among other elements, a proper policy for managing interest rate risk and currency risk.

The interest rate risk management policy covers:

- the Company's objectives in terms of interest rate risk,
- methods of interest rate risk monitoring;
- 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,

To manage interest rate risk, the Company enters into IRS contracts.

In 2017, the Group entered into two interest rate swaps (IRS) to pay a coupon based on a fixed PLN interest rate and to receive a coupon based on a variable PLN interest rate. The contracts provide a hedge against interest rate risk.

Contract 1: The Group 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). Maturity date: March 2nd 2022

Contract 2: The Group 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). Maturity date: May 4th 2022

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in the 3M WIBOR interest rate (hedging the coupon on PLN 150m worth of Series AA2 bonds and on PLN 50m worth of Series AC1 bonds). The Company issues bonds whose interest rate is based on 3M WIBOR plus margin. The designated risk component covers on average 33% of the total position. Only one risk component of the interest rate, i.e. 3M WIBOR, is hedged.

The Group expects cash flows to be generated and to have an effect on its results until 2022.

The Group determines the economic relationship based on the matching of the key terms of the hedging instrument and the hedged item, i.e. the base rate, the frequency of revaluation of the base rate, the duration and end dates of the interest periods, the maturity date, and the notional amount.

The hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument.

The hedge ratio for a given relationship is set at 1.0 (i.e. each unit of the notional amount of the hedging instrument hedges a unit of the designated notional amount of the hedged item).

The impact of counterparty credit risk on the fair value of the forward rate agreements may be the source of hedge ineffectiveness, as the credit risk is not reflected in the fair value of the hedged item.

In 2019, the Group entered into two interest rate swaps (IRS) to pay a coupon based on a fixed PLN interest rate and to receive a coupon based on a variable PLN interest rate. The contracts provide a hedge against interest rate risk.

Contract 1: The Group pays at a fixed rate of 1.58%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: September 28th 2024

Contract 2: The Group pays at a fixed rate of 1.58%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: September 27th 2024

Contract 3: The Group pays at a fixed rate of 1.61%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: October 12th 2024

Contract 4: The Group pays at a fixed rate of 1.65%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: February 6th 2024

Contract 5: The Group pays at a fixed rate of 1.65%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: November 27th 2024

Contract 6: The Group pays at a fixed rate of 1.67%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: October 18th 2022

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in the 3M WIBOR interest rate (hedging the coupon on PLN 50m worth of Series AH1 bonds; PLN 115m of Series AE4 bonds; PLN 35m of Series AE3 bonds; PLN 75m of Series AA4 bonds; PLN 25m of Series AG2 bonds; PLN 30m of Series AG1 bonds). The Company issues bonds whose interest rate is based on 3M WIBOR plus margin. The designated risk component covers on average 33% of the total position. Only one risk component of the interest rate, i.e. 3M WIBOR, is hedged.

The Group expects cash flows to be generated and to have an effect on its results in the period until 2024.

The Group determines the economic relationship based on the matching of the key terms of the hedging instrument and the hedged item, i.e. the base rate, the frequency of revaluation of the base rate, the duration and end dates of the interest periods, the maturity date, and the notional amount.

The hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument.

The hedge ratio for a given relationship is set at 1.0 (i.e. each unit of the notional amount of the hedging instrument hedges a unit of the designated notional amount of the hedged item).

The impact of counterparty credit risk on the fair value of the forward rate agreements may be the source of hedge ineffectiveness, as the credit risk is not reflected in the fair value of the hedged item.

Open outstanding IRS contracts held by KRUK Group companies as at December 31st 2020 and December 31st 2019, with a total volume of PLN 530,000 thousand:

Bank	Compan y	Type of transaction	Volume	Side of transaction - Buy /Sale of fixed rate	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 150,000,000.00	buy	2.50%	3M WIBOR	November 7th 2017 to March 2nd 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	2.50%	3M WIBOR	November 7th 2017 to May 4th 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 75,000,000.00	buy	1.67%	3M WIBOR	September 5th 2019 to October 18th 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 30,000,000.00	buy	1.65%	3M WIBOR	September 5th 2019 to November 27th 2023
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	buy	1.65%	3M WIBOR	September 5th 2019 to February 6th 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 35,000,000.00	buy	1.6050%	3M WIBOR	September 4th 2019 to October 12th 2023
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 115,000,00 0.00	buy	1.5775%	3M WIBOR	September 4th 2019 to September 27th 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	1.5775%	3M WIBOR	September 4th 2019 to September 28th 2024

The purpose of the contracts was to hedge volatility of cash flows generated by liabilities denominated in PLN due to changes in the reference interest rates and to hedge coupons paid on issued bonds.

Currency risk hedges

The Group's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (Note 29.3).

The currency risk management policy outlines:

- the Group's currency risk management objectives;
- the key rules of currency risk management at the Group;
- acceptable impact of currency risk on the Group'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.

In 2019, the Group took steps to hedge currency risk arising from the translation of net assets in a foreign entity through hedging transactions entered into by Group companies. It is the Group's objective to mitigate the effect of exchange differences arising on consolidation of foreign subsidiaries on the consolidated financial statements. The transactions were entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

Execution date	Settlement date	Amount in EUR	Value in PLN
Feb 28 2019	Mar 29 2019	65,000,000	280,325,500
Mar 29 2019	Apr 30 2019	60,000,000	258,462,000
Apr 30 2019	May 31 2019	82,000,000	351,853,800
May 31 2019	Jun 28 2019	60,000,000	257,496,000
May 31 2019	Jun 28 2019	23,000,000	98,573,400
Jun 28 2019	Jul 31 2019	21,000,000	89,434,800
Jun 28 2019	Jul 31 2019	60,000,000	255,372,000
Jul 31 2019	Aug 30 2019	55,000,000	236,434,000
Jul 31 2019	Aug 30 2019	21,000,000	90,241,200
Aug 30 2019	Sep 30 2019	32,000,000	140,409,600
Aug 30 2019	Sep 30 2019	31,000,000	135,987,700
Sep 30 2019	Oct 31 2019	29,000,000	127,104,100
Sep 30 2019	Oct 31 2019	30,000,000	131,383,500
Oct 31 2019	Nov 29 2019	30,000,000	128,083,500
Oct 31 2019	Nov 29 2019	29,000,000	123,757,500
Nov 29 2019	Dec 31 2019	30,000,000	129,937,500
Nov 29 2019	Dec 31 2019	25,000,000	108,310,000

As at December 31st 2020, the Group companies did not carry any unsettled forward contracts.

The impact of counterparty credit risk on the fair value of the currency forward contracts may be a source of hedge ineffectiveness, as the credit risk is not reflected in the fair value of the hedged item.

The Group does not expect the IBOR reform to have a significant effect on hedging relationships in hedge accounting.

In order to increase the economic effectiveness of the hedge, the Group designated hedging relationships with a monthly frequency, i.e. each FX Forward (EUR sale contract) with a one-month maturity is linked to a designated hedged item for one month (net assets of the investment in the foreign subsidiary expressed in EUR).

Amounts related to items designated as hedging instruments

PLN '000

	Carrying amount/fair value of hedging instruments									
	Dec 31 2020				Dec 31 2019					
	Assets	Liabilities	Notional amount	Change in fair value used to determine ineffectiveness	Assets	Liabilities	Notional amount	Change in fair value used to determine ineffectiveness	Item in the statement of financial position	Type of security
Instrument type:										
IRS	-	7,654	PLN 275,000	3,730	-	3,924	PLN 275,000	3,924	Hedging instruments	Cash flow hedges
IRS	-	10,732	PLN 255,000	11,131	399	-	PLN 255,000	399	Hedging instruments	Cash flow hedges
	-	**18,386**		**14,861**	**399**	**3,924**		**3,525**		

PLN '000

	Nominal amount as at Dec 31 2020				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	-	-	(275,000)	(255,000)	-
floating payment PLN	-	-	275,000	255,000	-

	Nominal amount as at Dec 31 2019				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	(530,000)	-
floating payment PLN	-	-	-	530,000	-

PLN '000

Disclosure of the hedged item as at Dec 31 2020

	Nominal amount of the hedged item	Change in the fair value of the hedged item	Reserve for measurement of continuing hedges	Reserve (unsettled) for measurement of discontinued hedges
Hedge of future cash flows (interest rate risk)	530,000	18,386	(18,386)	-
Hedge of investments in net assets (currency risk)	-	-	-	3,603

PLN '000

Disclosure of the hedged item as at Dec 31 2019

	Nominal amount of the hedged item	Change in the fair value of the hedged item	Reserve for measurement of continuing hedges	Reserve (unsettled) for measurement of discontinued hedges
Hedge of future cash flows (interest rate risk)	530,000	3,525	(3,525)	-
Hedge of investments in net assets (currency risk)	-	4,447	-	3,603

PLN '000

Cash flow hedge reserve	**Jan 1-Dec 31 2020** **Hedge of future cash flows (interest rate risk)**	**Hedge of investments in net assets (currency risk)**	**Total hedge reserve**
Hedge reserve at beginning of the period	(3,525)	3,603	78
Measurement of instruments charged to capital reserves	(10,439)	-	(10,439)
Amount reclassified to profit or loss during the period	(4,422)	-	(4,422)
- Interest income	(4,422)	-	(4,422)
- Reclassification of exchange differences	-	-	-
- Ineffective portion of hedge	-	-	-
Hedge reserve at end of the period	(18,386)	3,603	(14,783)

PLN '000	Jan 1-Dec 31 2019		
Cash flow hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of investments in net assets (currency risk)**	**Total hedge reserve**
Hedge reserve at beginning of the period	(3,869)	-	(3,869)
Measurement of instruments charged to capital reserves	(1,216)	4,477	3,261
Amount reclassified to profit or loss during the period	1,560	(874)	686
- Interest income	1,560	(874)	686
- Reclassification of exchange differences	-	-	-
- Ineffective portion of hedge	-	-	-
Hedge reserve at end of the period	(3,525)	3,603	78

26. Employee benefit obligations and provisions

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Salaries and wages payable	18,314	17,110
Social benefit obligations	13,771	11,866
Accrued holiday entitlements	7,271	7,719
Personal income tax	3,307	2,350
Special accounts	197	189
Accrued gratuity payments	-	109
	42,860	39,343

Changes in accrued employee benefits

Change in accrued holidays	
Carrying amount as at Jan 1 2019	5,684
Increase	6,826
Use	(4,791)
Release	-
Carrying amount as at Dec 31 2019	7,719
Carrying amount as at Jan 1 2020	7,719
Increase	7,534
Use	(7,982)
Release	-
Carrying amount as at Dec 31 2020	7,271

27. Trade and other payables

PLN '000

PLN '000	Dec 31 2020	Dec 31 2019
Trade payables	72,620	45,671
Other liabilities	18,558	16,829
Accrued expenses	9,760	10,246
Deferred income	5,336	6,665
Tax and duties payable	5,953	15,067
	112,227	94,478

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

28. Provisions

PLN '000	Dec 31 2020	Dec 31 2019
Provisions for retirement gratuity payments	13,463	10,196
Provision for the loyalty scheme	10,652	6,825
Other provisions	29,008	7,156
	53,124	24,178

Change in employee benefit obligations

Carrying amount as at Jan 1 2019	6,554
Increase	3642
Carrying amount as at Dec 31 2019	10,196
Carrying amount as at Jan 1 2020	10,196
Increase	3,267
Carrying amount as at Dec 31 2020	13,463

Changes in provision for the loyalty scheme

Carrying amount as at Jan 1 2019	7,392
Increase	115
Use	(681)
Carrying amount as at Dec 31 2019	6,825
Carrying amount as at Jan 1 2020	6,825
Increase	4,720
Use	(894)
Carrying amount as at Dec 31 2020	10,652

Change in other provisions

Carrying amount as at Jan 1 2019	-
Provision for possible differences relative to straight-line basis settlement	7,156
Carrying amount as at Dec 31 2019	7,156
Carrying amount as at Jan 1 2020	7,156
Provision for possible differences relative to straight-line basis settlement	21,852
Carrying amount as at Dec 31 2020	29,008

On September 11th 2019, after hearing the request of the District Court of Lublin for a preliminary ruling on the interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers, the Court of Justice of the European Union rules that the article should be interpreted in such a way that the consumer's right to reduce the total cost of credit in the event of early repayment covers all the costs imposed on the consumer.
Wonga has automatically reduced all early repayment costs since 2012, i.e. since its inception.

In connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of fee refunds, the Group recognised a provision for the difference between the applied refund method and the straight-line method. The provision reflects the probability of an outflow of resources from an entity, as estimated by the Group. For loans repaid after September 11th 2019 the Group prudently adopted a provision for the entire difference between the applied refund method and the straight-line method. Since September 18th 2020, the Group has applied a straight-line method to account for fee refunds on early loan repayment.

29. Management of risk arising from financial instruments

The Group is exposed to the following risks related to the use of financial instruments:

- credit risk,
- liquidity risk,
- market risk.

This note presents information on the Group's exposure to each type of the above risks, the Group's objectives, policies and procedures for measuring and managing the risks, and the Group's management of capital.

Key policies of risk management

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis to reflect changes in market conditions and in the Group's activities. The Group, through appropriate training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

29.1. Credit risk

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

Credit concentration risk is defined by the KRUK Group as a risk resulting from material exposure to individual entities or indebted persons whose capacity to repay debt depends on a common risk factor. The KRUK Group analyses concentration risk resulting from exposure to:

- indebted individuals as part of its investments in debt portfolios,
- borrowers under loans,
- business partners,
- geographic regions.

Loans

Following the acquisition of Wonga.pl Sp. z o.o., most of the borrowers are now Wonga's clients. Wonga products are offered to individuals of good credit standing, with access to online banking. The KRUK Group continues to offer loans to persons who have repaid or are regularly repaying their liabilities under a settlement agreement or a loan taken out at Novum Finance Sp. z o.o. The Novum offering is primarily addressed to clients who have already used an instalment product at the KRUK Group. The Group has the experience and analytical tools necessary to estimate credit risk for loans offered both to new clients and to clients previously involved with the KRUK Group. Loans to borrowers who were not previously clients of the KRUK Group currently represents a significant majority of the KRUK Group's consumer loan portfolio.

For each loan, the Group assesses the client's creditworthiness, which is then reflected in the offer addressed to the client.

For loans measured at amortised cost and at fair value, the loan-related credit risk is reflected in their measurement at the end of each reporting period, in accordance with section 3.4.1. As at each valuation date, the Group estimates credit risk based on past inflows from loans. The credit risk assessment also takes into account the period of delinquency of the loans being valued.

The Group mitigates the risk by performing a meticulous verification of clients before a loan is advanced, taking into account the likelihood of recovery of invested capital from the amounts disbursed to clients and the estimated costs of the sale and service process. The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:

- Assessment of a client’s creditworthiness prior to advancing a loan and other terms of cooperation;
- Regular monitoring of timely payment of debt;
- Monitoring of risk indicators;
- Maintaining a diversified client base.

Assessment of a client’s creditworthiness includes:

- Verification of the client with a credit reference agency;
- Verification of loan documents;
- Verification of the employment status;

- Verification of the client's contact phone (for sales over the phone).

As part of the risk management policy, risk identification, measurement and management methods have been implemented to optimise the level of risk and ultimately to verify profitability. These methods are designed to assist in making rational business decisions based on the principle of balancing risk and profitability by limiting losses resulting from the materialisation of an unplanned adverse scenario or situation and maximising income earned in the case of materialisation of an unplanned favourable scenario or situation.

The Group carries out a thorough analysis and estimate of the risk attached to the loans it grants using advanced economic and statistical tools and relying on its long-standing experience in this respect.

As at the date of these financial statements, the KRUK Group holds no single loan to third parties where default on the loan could have a material adverse effect on its liquidity.

Trade and other receivables

The Management Board has established a credit policy whereby each creditworthiness of each business partner is evaluated before any payment and other contract terms are offered. The evaluation includes external ratings of the business partner, when available, and in some cases bank references. Each business partner is assigned a transaction limit which represents the maximum transaction amount for which no approval from the management board of individual companies is required.
The Group regularly monitors whether payments are made when due, and if any delays are found, the following actions are taken:

- - notices are sent to business partners
- - email messages are sent to business partners
- - telephone calls are made to business partners.

Over 60% of business partners have conducted business with the Group for at least three years. In only few cases losses were incurred by the Group as a result of non-payment. Trade and other receivables mainly comprise of fees receivable in respect of debt collected for external business partners.

The Group's exposure to credit risk mainly results from individual characteristics of each business partner. The Group's largest business partner generates 6% (2019: 2%) the Group's revenue. Receivables from the Group's largest business partner represented 7.7% of total gross trade receivables as at December 31st 2020 (December 31st 2019: 4.2%). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises impairment losses which represent its estimates of expected credit losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

Purchased debt portfolios

Purchased debt portfolios comprise of overdue debts which prior to the purchase by the Group were often subject to collection by the seller of the portfolio or by a third party acting on the seller's behalf. Credit risk related to purchased debt portfolios is relatively high, but the Group has the experience and analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Group evaluates the portfolio's credit risk which is subsequently reflected in the price offered for the portfolio.

A change in credit risk during the lifetime of an instrument is presented as an allowance for expected credit losses.

As at each valuation date, the Group estimates credit risk based on collections 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 invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).
- Indebted person:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the indebted person
  - region
  - indebted person's form of incorporation
  - indebted person's death or bankruptcy
  - indebted person's employment.
- Debt processing by the previous creditor:
  - availability of the indebted person's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - 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 Group 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 Group in most of such auctions do not differ significantly from prices offered by the Group's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.

The market value of a portfolio and its maximum purchase price are determined based on a 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. Other sub-portfolios are valued on a case-by-case basis in a due diligence process as at the time of their purchase.

Recoveries are estimated based on a statistical model developed on the basis of available selected reference data matching the valuation data. The reference data is derived from a database containing information on portfolios previously purchased and collected by the Group.

Once the evaluation of effectiveness and debt collection tools is completed, all parameters and comparative data for the reference portfolio, collection process, efficiency curve and risk are gathered. Also at this stage additional parameter reviews are considered, based on expert opinions. A single document (business plan) is then drafted, containing a summary of adopted assumptions and the resultant projection of expected cash flows from a portfolio, and a financial model is structured. The business plan serves to define the maximum purchase price that can be offered.

The maximum price is set based on the expected investment yield (mainly the internal rate of return, payback period, and nominal return). The expected return on investment largely depends on the risk inherent in a given project, which in turn depends, *inter alia*, on the quality of data provided by the business partner for valuation, reference data matching, and the number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow projection.

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

The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its business partners and indebted persons, which includes, among other things:

- assessment of a business partner's and indebted person'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 Group analyses the risk attached to the debt portfolios it purchases using economic and statistical tools and relying on its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis.

As at the date of this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on its 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
- loyalty scheme.

Exposure to credit risk

Carrying amounts of financial assets reflect the maximum exposure to credit risk. The maximum exposure to credit risk as at the end of the reporting periods is presented below.

PLN '000	***Note***	**Dec 31 2020**	**Dec 31 2019**
Investments in debt portfolios	*15*	3,984,080	4,196,821
Loans	*15*	224,644	214,617
Trade and other receivables	*18*	45,161	55,840
		4,253,885	4,467,278

The maximum exposure to credit risk by geographical segment as at the end of the reporting periods is presented below.

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Poland	2,109,437	2,117,848
Romania	912,242	1,009,917
Italy	742,972	820,505
Other foreign markets	489,234	519,007
	4,253,885	4,467,278

Impairment losses

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

	IFRS 9 classification	**Carrying amount as at Dec 31 2020**	**Carrying amount as at Dec 31 2019**
Trade and other receivables			
	Basket 1	45,360	57,483
	Basket 2	-	32
	Basket 3	1,613	-
		46,973	57,515
Impairment losses			
	Basket 1	446	1,643
	Basket 2	-	32
	Basket 3	1,366	-
		1,812	1,675
Net carrying amount			
	Basket 1	44,914	55,840
	Basket 2	-	-
	Basket 3	247	-
		45,161	55,840

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1–Dec 31 2020**			**Jan 1–Dec 31 2019**		
	Basket 1	**Basket 2**	**Basket 3**	**Basket 1**	**Basket 2**	**Basket 3**
Loss allowance as at Jan 1	1,643	32	-	1,496	109	-
Loss allowance recognised in the period	51	-	364	147	-	-
Reversal of loss allowance	(278)	-	-	-	(77)	-
Use of loss allowance	-	-	-	-	-	-
Transfer between baskets	(970)	(32)	1,002			
Loss allowance at end of the period	**446**	**-**	**1,366**	**1,643**	**32**	**-**

The analysis of loans as at the end of the reporting periods is presented in Note 15. Investments under *Loans.*

Changes in the gross amount of loans measured at amortised cost are presented below:

	Jan 1–Dec 31 2020				**Jan 1–Dec 31 2019**			
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**
Gross carrying amount as at Jan 1	186,183	34,789	52,556	2,408	-	38,577	19,845	-
Purchase	-	-	-	-	-	-	-	5,046
Disbursements/repayments	(25,135)	(9,936)	(14,791)	(1,316)	233,055	(1,678)	(16,270)	(2,638)
Transfer from basket 1 to basket 2	(21,673)	21,673	-	-	(31,349)	31,349	-	-
Transfer from basket 1 to basket 3	(30,478)	-	30,478	-	(15,523)	-	15,523	-
Transfer from basket 2 to basket 1	2,824	(2,824)	-	-	-	-	-	-
Transfer from basket 2 to basket 3	-	(16,039)	16,039	-	-	(33,458)	33,458	-
Transfer from basket 3 to basket 1	170	-	(170)	-	-	-	-	-
Transfer from basket 3 to basket 2	-	14	(14)	-	-	-	-	-
Gross carrying amount at end of the period	**111,891**	**27,677**	**84,098**	**1,092**	**186,183**	**34,789**	**52,556**	**2,408**

Changes in impairment losses on loans measured at amortised cost are presented below:

	Jan 1–Dec 31 2020			**Jan 1–Dec 31 2019**		
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**Basket 1**	**Basket 2**	**Basket 3**
Loss allowance as at Jan 1	21,298	6,730	33,293	-	3,480	10,878
Loss allowance recognised in the reporting period	12,205	5,226	-	33,556	19,175	-
Transfer from basket 1 to basket 2	(3,118)	3,118	-	(4,967)	4,967	-
Transfer from basket 1 to basket 3	(18,829)	-	18,829	(7,291)	-	7,291
Transfer from basket 2 to basket 1	(256)	256	-	-	-	-
Transfer from basket 2 to basket 3	-	(11,258)	11,258		(20,893)	20,893

Transfer from basket 3 to basket 1	31	-	(31)	-	-	-
Transfer from basket 3 to basket 2	-	10	(10)	-	-	-
Reversal of allowance for expected credit losses	-	-	(6,658)	-	-	(5,769)
Loss allowance at end of the period	**11,330**	**4,082**	**56,681**	**21,298**	**6,730**	**33,293**

As at December 31st 2020, the gross carrying amount of loans measured at amortised cost was PLN 224,759 thousand (December 31st 2019: PLN 275,937 thousand). The Group recognised an impairment allowance for expected credit losses on loans of PLN 72,093 thousand as at December 31st 2020 (December 31st 2019: PLN 61,320 thousand). The amount of the impairment loss is determined for individual expected loss recognition buckets, based on estimates that reflect the risk of incurring the expected loss, made taking into account the stage of delinquency (note 3.4.1). The amount of the impairment loss covers 32.1% of the gross carrying amount of loans measured at amortised cost (22.2% at the end of 2019). The total amount of undiscounted expected credit losses on impaired financial assets due to credit risk was PLN 13,677 thousand in 2020.

For information on changes in impairment losses on purchased debt portfolios measured at amortised cost, see note 5.

29.2. Liquidity risk

Liquidity risk is the risk of the Group's failure to pay its liabilities when due.
Liquidity risk management aims to ensure that the Group has sufficient liquidity to pay its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.
The key objectives of liquidity management include:

- to protect the KRUK Group against the loss of ability to pay its liabilities,
- to secure funds to finance the Group's day-to-day operations and growth,
- to effectively manage the available financing sources.

The Group has a liquidity management policy in place, which includes, among other things, rules for contracting debt finance, preparing analyses and projections of the Group's liquidity, and monitoring the performance of obligations under credit facility agreements.
The Group's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected collections from debt portfolios.
In accordance with the liquidity management policy adopted by the Group, the following conditions must be met by a Group entity before new debt can be incurred:

- the debt can be repaid from the Group's own assets,
- the debt is incurred taking into account the possibility of transferring the funds between companies, and the time and cost of such transfer,
- incurring the debt will not result in exceeding the financial covenants stipulated in facility agreements and terms and conditions of bonds.

Exposure to liquidity risk

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2020
PLN '000

	Carrying amount	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	3,984,080	7,942,787	777,405	790,886	1,405,952	2,677,834	2,290,710
Loans	224,644	451,729	148,553	107,525	136,514	59,137	-
Secured borrowings	(829,338)	(896,403)	(10,272)	(33,560)	(69,792)	(782,780)	-
Unsecured bonds in issue	(1,314,247)	(1,400,573)	(391,113)	(188,776)	(491,441)	(329,243)	-
Lease liabilities	(78,592)	(64,220)	(10,712)	(10,441)	(18,867)	(21,844)	(2,356)
Trade and other payables	(112,227)	(112,227)	(112,227)	-	-	-	-
	1,874,320	5,921,092	401,633	665,634	962,366	1,603,104	2,288,355

As at Dec 31 2019
PLN '000

	Carrying amount	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	4,196,821	7,563,217	822,785	839,968	1,585,210	2,922,388	1,392,865
Loans	214,617	295,526	145,903	63,957	51,102	27,336	7,228
Secured borrowings	(1,280,242)	(1,305,176)	(26,634)	(53,769)	(40,814)	(1,183,959)	-
Unsecured bonds in issue	(1,361,176)	(1,536,673)	(49,368)	(107,724)	(590,729)	(586,767)	(202,085)
Lease liabilities	(64,309)	(66,761)	(12,100)	(12,594)	(18,930)	(19,429)	(3,707)
Trade and other payables	(94,478)	(94,478)	(94,478)	-	-	-	-
	1,611,233	4,855,655	786,108	729,837	985,839	1,159,570	1,194,301

Contractual cash flows were determined based on interest rates effective as at December 31st 2019 and December 31st 2020, respectively.
The Group does not expect the projected cash flows discussed in the maturity analysis to occur significantly earlier than assumed or in amounts materially different from those presented.

As at December 31st 2020, the undrawn revolving credit facility limit available to the Group was PLN 1,045,684 thousand (December 31st 2019: PLN 556,254 thousand). The limit is available until December 20th 2023.

For information on liquidity risk associated with hedging instruments, see note 25.

Liquidity concentration risk is defined by the KRUK Group as a risk resulting from cash flows under individual financial instruments.

29.3. Market risk

Market risk is related to changes in such market factors as foreign exchange rates, interest rates or stock prices, which affect the Group's performance or the value of financial instruments it holds. The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

It has been concluded that effective implementation of the KRUK Group'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 Group's objectives in terms of interest rate risk;
- methods of interest rate risk monitoring;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding the Group's permitted exposure to interest rate risk;
- principles of interest rate risk management at the KRUK Group.

The currency risk management policy outlines:

- the Group's currency risk management objectives;
- the key rules of currency risk management at the Group;
- acceptable impact of currency risk on the Group'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 2020, financial assets denominated in foreign currencies accounted for 49% of total assets, while liabilities denominated in foreign currencies represented 19% of total equity and liabilities (December 31st 2019: 52% and 22%, respectively).

The Group uses financial instruments to hedge its interest rate risk and currency risk (see note 3.4.4).

Exposure to currency risk and sensitivity analysis

The Group's currency risk exposure, determined as the net carrying amount of the financial instruments denominated in foreign currencies based on the exchange rates effective at the end of the reporting period, is presented below:

PLN '000	Dec 31 2020						Dec 31 2019				
	Exposure to currency risk										
	PLN	**EUR**	**USD**	**RON**	**CZK**	**TOTAL**	**PLN**	**EUR**	**RON**	**CZK**	**Total**
Trade and other receivables	4	1,450		3,989	-	**5,443**	9	731	-	-	**740**
Investments	-	39,789		710,176	26,234	**776,198**	-	49,745	771,219	38,623	**859,587**
Cash	525	2706		14,946	1,423	**19,600**	234	12,704	18,605	742	**32,285**
Borrowings, debt securities and leases	-	(231,245)		-	-	**(231,245)**	-	(284,621)	-	-	**(284,621)**
Trade and other payables	(36)	(23,754)		(1,969)	(82)	**(25,841)**	227	799	(4,323)	(92)	**(3,389)**
Exposure to currency risk	494	(211,054)		727,142	27,575	**544,156**	470	(220,643)	785,502	39,273	**604,602**
Effect on statement of profit or loss	-	-		-	-	-	-	-	-	-	-
Trade and other receivables	-	37,806		13,498	10	**51,315**	-	22,010	18,178	11	**40,199**
Investments	-	1,124,579		181,720	35,192	**1,341,490**	-	1,197,592	303,650	34,698	**1,535,941**
Cash	-	62,379		28,279	4,876	**95,533**	-	56,002	12,839	4,507	**73,349**
Borrowings, debt securities and leases	-	(548,950)		(15,269)	(1,525)	**(565,745)**	-	(675,684)	(28,752)	(2,442)	**(706,878)**
Trade and other payables	-	(40,574)		(12,880)	(1,892)	**(55,346)**	-	(41,852)	(13,202)	(3,929)	**(58,982)**
Exposure to currency risk	-	635,239		195,348	36,661	**867,247**	-	558,069	292,714	32,845	**883,629**

Effect on other comprehensive income	-	-	-	-	-	-	-	-	-	-
Exposure to currency risk	494	424,184	922,489	64,235	**1,411,403**	470	337,427	1,078,216	72,118	**1,488,230**
Risk mitigation effect					**-**	**-**	(190,000)	**-**	**-**	**(190,000)**
Exposure to currency risk after hedging	494	424,184	922,489	64,235	**1,411,403**	470	147,427	1,078,216	72,118	**1,298,230**

PLN '000	**Dec 31 2020**					**Dec 31 2019**				
	Analysis of sensitivity of exposure to currency risk to +10% increase in exchange rates									
	PLN	**EUR**	**RON**	**CZK**	**TOTAL**	**PLN**	**EUR**	**RON**	**CZK**	**Total**
Trade and other receivables	-	145	399	-	**544**	1	73	-	-	**74**
Investments	-	3,979	71,018	2,623	**77,620**	-	4,974	77,122	3,862	**85,958**
Cash	52	271	1,495	142	**1,960**	23	1,270	1,861	74	**3,228**
Borrowings, debt securities and leases	-	(23,124)	-	-	**(23,124)**	-	(28,462)	-	-	**(28,462)**
Trade and other payables	(4)	(2,375)	(197)	(8)	**(2,584)**	23	80	(432)	(9)	**(338)**
Exposure to currency risk	-	-	-	-	**-**	-	-	-	-	-
Effect on statement of profit or loss	48	(21,104)	72,715	2,757	**54,416**	47	(22,065)	78,551	3,927	**60,460**
Trade and other receivables	-	3,781	1,350	1	**5,132**	-	2,201	1,818	1	**4,020**
Investments	-	112,458	18,172	3,519	**134,149**	-	119,759	30,365	3,470	**153,594**
Cash	-	6,238	2,828	488	**9,554**	-	5,600	1,284	451	**7,335**
Borrowings, debt securities and leases	-	(54,895)	(1,527)	(153)	**(56,575)**	-	(67,568)	(2,875)	(244)	**(70,687)**

Trade and other payables	-	(4,057)	(1,288)	(189)	**(5,534)**	-	(4,185)	(1,320)	(393)	**(5,898)**
Exposure to currency risk	-	-	-	-	**-**	-	-	-	-	**-**
Effect on other comprehensive income	-	63,525	19,535	3,666	**86,726**	-	55,807	29,272	3,285	**88,364**
Exposure to currency risk	49	42,418	92,249	6,424	141,140	47	33,743	107,822	7,212	**148,824**
Risk mitigation effect	**-**	-	**-**	**-**	-	-	(19,000)	-	-	**(19,000)**
Exposure to currency risk after hedging	49	42,418	92,249	6,424	**141,140**	47	14,743	107,822	7,212	**113,233**

As at December 31st 2020, a 10% depreciation of the Polish currency against the euro would result in a PLN 21,104 thousand decrease in profit and a PLN 42,418 thousand increase in equity. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

Currency concentration risk is defined by the KRUK Group as a risk resulting from material exposure to individual financial instruments denominated in RON, CZK, EUR.

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

PLN	**Average exchange rates**		**End of period (spot rates)**	
	Jan 1–Dec 31 2020	**Jan 1–Dec 31 2019**	**Dec 31 2020**	**Dec 31 2019**
EUR 1	4.4742	4.3018	4.6148	4.2585
USD 1	3.9045	3.8440	3.7584	3.7977
RON 1	0.9239	0.9053	0.9479	0.8901
CZK 1	0.1687	0.1676	0.1753	0.1676

Exposure to interest rate risk

The structure of interest-bearing financial instruments at the end of the reporting period was as follows:

PLN '000	**Carrying amount**	
	Dec 31 2020	**Dec 31 2019**
Fixed-rate financial instruments		
Financial assets*	4,253,885	4,467,278
Financial liabilities	(324,512)	(303,398)
	3,929,373	4,163,880
Hedge effect (nominal amount)	(530,000)	(530,000)
	3,399,373	3,633,880
Variable-rate financial instruments		
Financial assets*	-	-
Financial liabilities	(2,009,891)	(2,492,027)
	(2,009,891)	(2,492,027)
Hedge effect (nominal amount)	530,000	530,000
	(1,479,891)	(1,962,027)

**Investments, trade and other receivables*

Interest rate concentration risk is defined by the KRUK Group as a risk resulting from material exposure to individual financial instruments.

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group does not hold any fixed rate financial instruments measured at fair value through profit or loss, nor does it execute transactions with derivatives (IRSs) serving as security for fair value. Therefore, a change of an interest rate would have no material effect on current period's profit or loss.

Sensitivity analysis of cash flows from variable-rate financial instruments

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

PLN '000	**Profit or loss for the 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 2020				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(20,099)	20,099	-	-
Dec 31 2019				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(24,920)	24,920	-	-

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 2020**		**Dec 31 2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Derivatives	(11,236)	(11,236)	3,820	3,820
Hedging instruments	(18,386)	(18,386)	(3,525)	(3,525)
Loans	71,978	71,978	-	-
	42,356	42,356	295	295
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	3,984,080	3,962,354	4,196,821	3,820,966
Loans	152,666	140,755	214,617	219,549
Secured borrowings	(829,338)	(830,663)	(1,280,242)	(1,280,242)
Liabilities under debt securities (unsecured)	(1,314,247)	(1,319,748)	(1,361,176)	(1,372,989)
	1,993,161	1,952,698	1,770,020	1,387,285

For information on fair value measurement, see note 3.4.

Interest rates used for fair value estimation

	Dec 31 2020	Dec 31 2019
Investments in debt portfolios	0.00% - 113.64%	0.00% - 113.64%
Loans	9.13% - 86.22%	21.40% - 98.80%
Secured borrowings	0.20% - 4.16%	1.84% - 4.89%
Liabilities under debt securities (unsecured)	3.21% - 4.80%	4.22% - 5.22%

Hierarchy of financial instruments

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 or indirectly,
- Level 3: inputs that are not based on observable market prices (unobservable inputs).

In 2019−2020, no transfers were made between the levels.

The Group does not identify Level 1 assets.

Hierarchy of financial instruments – Level 2

PLN '000	Level 2	
	Carrying amount	Fair value
As at Dec 31 2019		
Derivatives	3,820	3,820
Hedging instruments	(3,525)	(3,525)
Secured borrowings	(1,280,242)	(1,280,242)
Liabilities under debt securities (unsecured)	(1,361,176)	(1,372,989)
As at Dec 31 2020		
Derivatives	(11,236)	(11,236)
Hedging instruments	(18,386)	(18,386)
Secured borrowings	(829,338)	(830,663)
Liabilities under debt securities (unsecured)	(1,314,247)	(1,319,748)

The fair value of CIRS and IRS transactions is determined on the basis of future cash flows related to executed transactions, calculated on the basis of the difference between the forecast 3M WIBOR and 3M WIBOR as at the transaction date. To determine the fair value, the Group uses a 3M WIBOR forecast provided by an external company.

The fair value of financial liabilities is determined on the basis of future cash flows related to executed transactions, calculated on the basis of the difference between the margin applicable to financial liabilities as at the reporting date and the margin as at the transaction date. To determine the fair value, the Group uses the margin under the most recent credit facility agreement or debt securities issue.

Hierarchy of financial instruments – Level 3

PLN '000	**Level 3**	
	Carrying amount	**Fair value**
As at Dec 31 2019		
Investments in debt portfolios	4,196,821	3,820,966
Loans	214,617	219,549
As at Dec 31 2020		
Investments in debt portfolios	3,984,080	3,962,354
Loans	224,644	212,733

The fair value of investments in 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.

The difference between the fair value and the carrying amount calculated using the amortised cost method results from a different methodology for calculating both these amounts. The carrying amount is affected by a projection of recoveries from debt portfolios and the exchange rate as at the reporting date, while the fair value is additionally affected by projected costs of debt collection and the risk-free rate.

29.4. Capital management

The Parent's Management Board seeks to strike a balance between the rate of return achievable with higher debt levels and the risk exposure. In the reporting period from January 1st to December 31st 2020, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 4.15% (2019: 16.43%)
The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and leases to total equity, was 1.09 as at December 31st 2020 (December 31st 2019: 1.38)
In the reporting period from January 1st to December 31st 2020, there were no changes in the Group's approach to capital management.

30. Related-party transactions

Related-party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Remuneration of the management personnel - Management Board

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

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Base pay/ managerial contract (gross)	6,231	5,472
Additional benefits	109	93
Share based payments	4,382	9,658
	10,722	15,223

Remuneration of the Management Board members includes severance payments.

Remuneration of the Supervisory Board members

Remuneration of members of the Parent's Supervisory Board was as follows:

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1–Dec 31 2019**
Base pay (gross)	873	867
Additional benefits	15	36
	888	903

Other transactions with management personnel

As at December 31st 2020, members of the Management Board and persons closely related to them jointly held 10.3% of the total voting rights at the Parent's General Meeting (December 31st 2019: 11.09%).

In 2020 and 2019, there were no transactions with close family members of the Group's key management personnel.

Members of the Management Board and Supervisory Board and close family members of the Group's key management personnel did not provide any guarantees or sureties to the Group companies.

Members of the Management Board and Supervisory Board and close family members of the Group's key management personnel did not receive any guarantees or sureties from the Group companies.

31. Share-based payments

Equity-settled cost of stock option plan for the Management Board of the Parent and employees.

PLN '000

	Value of benefits granted
Period ending	
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
Dec 31 2019	9,658
Dec 31 2020	(1,156)
Total	63,425

The management stock option plans are described in note 21.

32. Auditor's fees

Auditor's fees are presented below:

PLN '000 net	Dec 31 2020	Dec 31 2019
Audit of financial statements	1,832	1,496
Other assurance services, including review of financial statements	352	501
	2,184	1,997

33. Other notes

33.1. Notes to the consolidated statement of cash flows

The tables below present the reconciliation of differences between changes in certain items of the consolidated statement of financial position and the statement of profit or loss and changes resulting from the consolidated statement of cash flows:

PLN '000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Change in trade and other receivables resulting from statement of financial position	10,679	(4,609)
Income tax receivables	(5,889)	-
Change in trade and other receivables resulting from statement of cash flows	4,790	(4,609)

PLN '000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Change in investments in debt portfolios resulting from statement of financial position	212,741	(119,103)
Effect of exchange differences on translating foreign operations	113,872	26,369
Change in investments in debt portfolios resulting from statement of cash flows	326,613	(92,734)

33.2. Effect of COVID-19 pandemic

The KRUK Group's net profit in 2020 was materially affected by the COVID-19 pandemic. In 2020, the Group's net profit was PLN 80,998 thousand, having decreased by PLN 196,059 thousand, or 71%, year on year. In 2020, the KRUK Group's revenue from continuing operations totalled PLN 1,138,018 thousand, down 10% on 2019. Revenue from purchased debt portfolios was PLN 976,341 thousand in 2020, down 14% on 2019. Revenue in the purchased debt segment was down due to lower-than-planned recoveries from debt portfolios and the recognition of a downward revision of recovery projections in the total amount of PLN -205,271 thousand. 2020 expenses related to revenue from continuing operations include an additional impairment loss on the Spanish company of PLN -25,051 thousand.

The value of recoveries from purchased debt portfolios in 2020 was the highest in the Group's history and amounted to PLN 1,833,874 thousand, up by 3% year on year depsite the adverse effect of the pandemic.

In 2020, the Group invested PLN 456,224 thousand in debt portfolios, 42% less than in 2019. The Group scaled down its investment activity over the period of material uncertainty triggered by the coronavirus pandemic and its consequences. Virtually all the markets where the KRUK Group operates have seen the supply of debt portfolios and the number of transactions fall due to the Covid-19 pandemic. Only at the end of the third quarter did banks and financial institutions resume debt auctions, suspended or cancelled in previous months due to the pandemic.

The results posted by the credit management business were adversly affected by the COVID-19 pandemic, including the fact that some of the banks' customers decided to exercise the right to temporarily suspend repayment of their debts (moratoria). Credit management revenue in 2020 decreased by 13% year on year, to PLN 56,821 thousand.

The COVID-19 pandemic also had a negative impact on the performance of the lending business. The gross value of new loans advanced was PLN 207,009 thousand in 2020 (PLN 327,599 thousand in 2019). Given the

COVID-19 pandemic as well as the temporary reduction – under the Act of March 8th 2020 on Special Solutions Related to Prevention, Counteracting and Combating of COVID-19, Other Infectious Diseases and Emergencies Caused by them and Certain Other Acts (Dz. U. 2020, item 568) – of a cap on non-interest costs of consumer loans, both Wonga and Novum temporarily reduced the sale of loan products, while introducing additional changes and restrictions to the creditworthiness assessment process. The enacted legislative changes are undermining the profitability of products offered by Wonga and Novum.

The COVID-19 pandemic affected the Group's operations in many dimensions. The key ones are presented below:

- We switched to remote working smoothly and fast; most of our employees can and continue to work from home.
- We took care of the employees' safety by adapting the rooms or providing the required sanitisers and disinfectants; we reduce the need for and frequency of face-to-face meetings.
- We temporarily suspended visits from field advisors, who resumed face-to-face meetings with clients in late May and early June while observing the sanitary regime.
- We further developed our existing online tools and accelerated the implementation of new ones (e-KRUK, e-payments, e-signature, online settlement, self-service process) to enable efficient process management and to enable our clients to pay their liabilities safely and comfortably, regardless of any movement restrictions.
- We reduced our lending activity and simultaneously implemented additional verification of clients applying for a loan. We reduced non-interest costs in compliance with legislative changes introduced in Poland.
- We temporarily lowered the remuneration of members of the management and supervisory boards and our employees.
- We suspended pay rises and fringe benefits, and curtailed recruitment of new staff.
- We used additional cost cutting measures, some of which consisted in postponing certain expenses, and some may be of a recurring nature.
- In Poland, Romania and Spain, we received subsidies to salaries and wages under governmental assistance plans.
- We followed a prudent investment policy, taking into account the additional risk related to the pandemic in our valuations.
- We factored in the probable impact of the pandemic on recoveries, which represented the bulk of the PLN 205,271 thousand downward revisions of recovery projections in 2020.
- The measures we took to support the operating process during the pandemic, the cost-cutting measures we applied, and also our long-standing conservative policy of keeping the Group's debt at a relatively low level allowed us to maintain a stable financial and liquidity position in this economically challenging time.

The KRUK Group's operations are being continued on each market and within each business line, and the Group's liquidity position remains stable. The Group has access to significant liquidity reserves in the form of cash at bank and unused credit facility limits.

However, at the time of preparation of the consolidated financial statements for 2020, the Group is unable to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Group's economic condition and financial performance.

Taking various scenarios into account, the KRUK Group intends to manage its operations in a way that would minimise any adverse effects on KRUK's assets and financial performance. The following measures have been taken to that end: the switchover to remote work (with 95% of the employees having opted to work from home during the pandemic period), reduction of investments in new portfolios, and cost saving initiatives in 2020. At the time of preparation of these consolidated financial statements for 2020, the Group was unable to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Group's economic condition and financial performance, due to the heightened uncertainty of estimates. However, seeking to forestall any unexpected impacts of COVID-19 on the valuation of its debt portfolios, the Group developed operational scenarios for various impacts of the pandemic on the level of its recoveries. Gain/(loss) on expected credit losses on portfolios recognised throughout 2020 reflects the scenario of the pandemic's impact on debt recoveries that was considered most probable at the time of its preparation. If in the coming months recoveries turn out to be lower than assumed for the purposes of the valuation and a further revaluation loss is required to be recognised to reflect the pandemic impact, the Group is prepared and has plans to take further operational measures to ensure that its continued operations and liquidity position on each market remain stable. Also with respect to the valuation of consumer loan portfolios, the Group developed operational scenarios for various impacts of the pandemic on the level of repayments.

34. Contingent liabilities

Security created over the Group's assets as at December 31st 2020 is presented below:

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 210m	By 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 Polska S.A.	PLN 162.40m	Until the derivative transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended

Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 162.40m	By 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 master 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 all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A. are fulfilled	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 291,076.65 and PLN 197,482.17	By December 30th 2021	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	By December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	EUR 390m	Until all obligations under the credit facility agreement are satisfied.	The Borrower's failure to pay amounts owed under the credit facility agreement
Blank promissory note	mBank S.A.	PLN 7.5m	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019

Surety for InvestCapital LTD's liabilities under financial market transactions in pursuant to the master agreement between InvestCapital LTD and DNB Bank Polska S.A.	DNB Bank Polska S.A.	EUR 15.3m	Until the transactions are settled and the bank's claims thereunder are satisfied.	InvestCapital LTD's failure to satisfy its obligations under financial market transactions executed pursuant to the master agreement of February 28th 2019.

Until the date of issue of this report, there were no movements in contingent liabilities or contingent assets.

35. Events subsequent to the reporting date

On March 17th 2021, the Parent's Management Board passed a resolution on preliminary estimates of the KRUK Group's results for 2020 and a resolution to recommend that the Parent's Annual General Meeting endorse the payment of dividend of PLN 8 per share to the Parent's shareholders. The dividend would be distributed from the Parent's net profit earned in 2020, increased by amounts transferred from statutory reserve funds created from retained earnings. The recommendation took into account the current financial condition of the KRUK Group, future implementation of the strategy, as well as the Group's plans and growth prospects.

Subsequent to the end of the reporting period, there were no other reportable material events whose disclosure in these consolidated financial statements would be required.

Piotr Krupa
CEO and President of the Management Board

Piotr Kowalewski
Member of the Management Boar

Urszula Okarma
Member of the Management Board

Michał Zasępa
Member of the Management Board

Adam Łodygowski
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Monika Grudzień-Wiśniewska
Person keeping the accounting records

Hanna Stempień
Prepared by statements

Wrocław, March 25th 2021.