KRUK Group
Consolidated financial statements
for the year ended December 31st 2021

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

KRUK Group

December 31st 2021

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Consolidated statement of profit or loss

For the year ended December 31st

PLN thousand

	Note	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Continuing operations			
Interest income on debt portfolios and loans measured at amortised cost	*5*	1,081,638	1,083,412
Interest income on loans measured at fair value	*5*	40,243	6,831
Revenue from sale of debts and loans	*5*	9,552	4,130
Other income/(expenses) from purchased debt portfolios	*5*	(26,094)	(27,114)
Revenue from other services	*5*	70,783	66,421
Other income	*5*	4,766	19,792
Change in investments measured at fair value	*5*	(11,569)	(1,803)
Gain/(loss) on expected credit losses	*5*	573,364	6,143
Operating income including gain/(loss) on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios		1,742,683	1,157,812
Employee benefits expense	*8*	(396,488)	(341,862)
Amortisation	*12.13*	(48,355)	(46,543)
Services	*6*	(150,051)	(134,928)
Other expenses	*7*	(288,173)	(302,214)
		(883,067)	(825,547)
Operating profit		859,616	332,265
Finance income	*9*	11,479	89
Finance costs	*9*	(97,139)	(127,913)
including interest expense on lease liabilities		*(2,240)*	*(2,546)*
Net finance costs		(85,660)	(127,824)
Profit before tax		773,956	204,441
Income tax	*10*	(79,053)	(123,443)
Net profit for period		694,903	80,998
Net profit attributable to:			
Owners of the Parent		694,758	81,356
Non-controlling interests		145	(358)
Net profit for period		694,903	80,998
Earnings per share			
Basic (PLN)	*22*	36.63	4.29
Diluted (PLN)	*22*	35.80	4.22

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
PLN thousand

	Note	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Net profit for period		694,903	80,998
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation reserve	*9*	(5,633)	111,579
Cash flow hedges	*25*	32,668	(14,861)
Other comprehensive income for the period, net		27,035	96,718
Total comprehensive income for period		721,938	177,716
Total comprehensive income attributable to:			
Owners of the Parent		721,774	178,074
Non-controlling interests		164	(358)
Total comprehensive income for period		721,938	177,716

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

PLN thousand

	Note	Dec 31 2021	Dec 31 2020
Assets			
Cash and cash equivalents	*19*	199,164	145,552
Hedging instruments	*25*	13,803	-
Trade receivables	*18*	22,873	16,804
Other receivables	*18*	35,079	28,357
Inventories	*16*	20,295	32,069
Investments	*15*	5,416,512	4,208,724
Deferred tax asset	*17*	37,560	31,180
Property, plant and equipment	*12*	80,249	91,864
Goodwill	*14*	23,840	23,916
Other intangible assets	*13*	43,474	50,729
Other assets	*20*	16,551	13,836
Total assets		5,909,400	4,643,031
Equity and liabilities			
Liabilities			
Trade and other payables	*27*	162,986	112,227
Derivatives	*24*	-	11,236
Hedging instruments	*25*	-	18,386
Employee benefit obligations	*26*	48,661	42,860
Income tax payable		18,369	5,223
Borrowings, debt securities and leases	*23*	2,869,020	2,222,176
Provisions	*28*	43,060	53,124
Deferred tax liability	*17*	167,077	134,339
Total liabilities		3,309,173	2,599,571
Equity			
Share capital	*21*	19,013	19,011
Share premium		333,264	310,430
Hedging reserve		17,885	(14,783)
Translation reserve		75,708	81,360
Other capital reserves		122,202	103,626
Retained earnings		2,032,745	1,544,127
Equity attributable to owners of the Parent		2,600,817	2,043,771
Non-controlling interests		(590)	(311)
Total equity		2,600,227	2,043,460
Total equity and liabilities		5,909,400	4,643,031

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 (PLN' thousand)

	Note	Share capital	Share premium	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 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	32	-	-	(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
Equity as at Jan 1 2021		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771	(311)	2,043,460
Comprehensive income for the period										
Net profit for period		-	-	-	-	-	694,758	694,758	145	694,903
Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	(5,652)	-	-	(5,652)	19	(5,633)
- Measurement of hedging instruments	32	-	-	32,668	-	-	-	32,668	-	32,668
Total other comprehensive income		-	-	32,668	(5,652)	-	-	27,016	19	27,035
Total comprehensive income for period		-	-	32,668	(5,652)	-	694,758	721,774	164	721,938
Contributions from and distributions to owners										
- Payment of dividends	*22*	-	-	-	-	-	(206,140)	(206,140)	(443)	(206,583)
- Issue of shares	*21*	273	22, 834	-	-	-	-	23,107	-	23,107
- Cancellation of treasury shares		(271)	-	-	-	-	-	(271)	-	(271)
- Share-based payments	*31*	-	-	-	-	18,576	-	18,576	-	18,576
Total contributions from and distributions to owners		2	22,834	-	-	18,576	(206,140)	(164,728)	(443)	(165,171)
Total equity as at Dec 31 2021		19,013	333,264	17,885	75,708	122,202	2,032,745	2,600,817	(590)	2,600,227

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 *PLN thousand*	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Cash flows from operating activities			
Net profit for period		694,903	80,998
Adjustments			
Depreciation of property, plant and equipment	*12*	31,048	32,127
Amortisation of intangible assets	*13*	17,307	14,416
Impairment losses on goodwill		-	25,051
Net finance costs		85,660	127,824
(Gain)/loss on sale of property, plant and equipment		(455)	(597)
Equity-settled share-based payments	*31*	18,576	(1,156)
Income tax	*10*	79,053	123,443
Change in loans	*15*	(91,692)	(10,027)
Change in debt portfolios purchased	*15*	(1,126,268)	326,614
Change in inventories	*16*	11,774	2,623
Change in trade and other receivables	*18*	(12,791)	4,790
Change in other assets	*20*	(2,715)	(10,816)
Change in trade and other payables	*27*	50,971	17,749
Change in employee benefit obligations	*26*	5,801	3,517
Change in provisions	*28*	(10,064)	28,946
Share of minority profits		(145)	358
Income tax paid		(39,760)	(22,344)
Net cash from operating activities		(288,797)	743,516
Cash flows from investing activities			
Interest received	*9*	45	89
Sale of intangible assets and property, plant and equipment		2,411	5,980
Purchase of intangible assets and property, plant and equipment	*12.13*	(16,068)	(16,974)
Net cash from investing activities		(13,612)	(10,905)
Cash flows from financing activities			
Net proceeds from issue of shares	*21*	22,836	3,238
Proceeds from issue of debt securities	*23*	535,000	24,550
Increase in borrowings	*23*	1,894,837	824,927
Repayment of borrowings	*23*	(1,228,490)	(1,280,865)
Payments under finance lease contracts	*23*	(25,718)	(26,552)
Payment of dividends	*22*	(206,583)	(667)
Redemption of debt securities	*23*	(540,000)	(88,360)
Share buyback		-	(94,850)
Interest paid		(95,861)	(98,754)
Net cash from financing activities		356,021	(737,333)
Total net cash flows		53,612	(4,722)
Cash and cash equivalents at beginning of period		145,552	150,274
Cash and cash equivalents at end of period	*19*	199,164	145,552
of which:			
- effect of exchange rate fluctuations on cash held		*(2,767)*	*(12,899)*
*- restricted cash**		*38,931*	*-*

** Cash raised from the issue of Series AM1 bonds deposited* in *a brokerage account, credited in the Group's bank account after the reporting date, on January 4th 2022.*

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")
/There was no change in the name of the entity during the reporting period/

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

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 2021 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, 24 subsidiaries, and 2 entities controlled through personal links:

Subsidiary	Registered office	Principal business activity
DEBT MANAGEMENT		
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
Kruk Espana S.L.U.	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
KRUK INVESTIMENTI S.R.L.	Milan	Investing in debt or debt-backed assets
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

Subsidiary	Registered office	Principal business activity
KRUK Romania S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
INVESTMENTS IN DEBT PORTFOLIOS		
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
Bison NS FIZ (closed-end investment fund)	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by KRUK S.A.
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by Presco Investments S.a r.l.
Prokura NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are indirectly held by KRUK S.A.
InvestCapital Ltd.	Malta	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
CONSUMER LOANS		
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
Wonga.pl sp. z o.o.	Warsaw	Company operating in the consumer lending market
DEBT MANAGEMENT SUPPORT ACTIVITIES		
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
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
Zielony Areał sp. z o.o.	Wrocław	Buying and selling own real estate; services supporting crop production.

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

KRUK Investimenti S.r.l. was established under articles of association executed on April 29th 2021.

Zielony Areał sp. z o.o., with its registered office in Wrocław, was incorporated under its articles of association on September 9th 2021 and entered in the Business Register on October 4th 2021.

Secapital Polska Sp. z o.o. in liquidation was deleted from the business register on March 9th 2021 pursuant to the registry court's decision.

/KRUK S.A. is the ultimate parent of the Group./

The Parent operates three local offices in Warsaw, Szczawno-Zdrój and Piła.

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

		Ownership interest and share in total voting rights	
	Country	**Dec 31 2021**	**Dec 31 2020**
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)[4]	Poland	-	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o. [1]	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	n/a	n/a
Gantoi, Furculita Si Asociatii S.p.a.r.l. [3]	Romania	n/a	n/a
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	100%
KRUK Investimenti S.r.l. [5]	Italy	100%	-
Zielony Areał Sp. z o.o. [6]	Poland	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.

[4] Entity dissolved through liquidation in the three months ended March 31st 2021.

[5] Entity established in the second quarter of 2021.

[6] Entity established in the fourth quarter of 2021.

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 15th 2022.

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 COVID-19.

2.2. Basis of accounting

These consolidated financial statements have been prepared for the reporting period January 1st 2021 − December 31st 2021. The comparative data is presented as at December 31st 2020 and for the period January 1st 2020 – December 31st 2020.

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 for which the 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.

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 2020 *(PLN thousand)*	**Dec 31 2021 *(PLN thousand)***		
Investments in debt portfolios	3,984,080	5,100,176	*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 (portfolio analysis) 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 (purchase price plus directly allocated transaction costs), and remains unchanged throughout the life of a portfolio.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN thousand)*	**Dec 31 2021 *(PLN thousand)***		
Goodwill	23,916	23,840	*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. No goodwill impairment was identified in the reporting period.
Loans measured at amortised cost	152,666	279,213	*3.4* *15* *29.1* *29.3*	Gross loans are calculated based on expected cash flows discounted with the effective interest rate. The expected cash flows are determined for homogeneous groups of loans, based on historical prepayment data. The probability of prepayment varies, among other things, depending on the time elapsed since the grant of loan. Life tables are subject to periodic review, which may result in their change. The amount of gross loans is reduced by the amount of expected credit losses. It is determined based on, among other things, probability of default (PD), loss given default (LGD), and exposure at default (EAD). The expected credit loss model changed in 2021; previously it was based on default rate analysis. The change in the model resulted in an approximately PLN 15m increase in impairment losses, mainly due to higher loss estimates for newly granted exposures based on their risk classes. As at December 31st 2021, for loans advanced by Wonga.pl measured at amortised cost: − a 10% increase in the expected life of the loans would result in a PLN 1,270t increase in the gross carrying amount of the loans, − a 10% decrease in the expected life of the loans would result in a PLN 4,267t decrease in the gross carrying amount of the loans, − a parallel shift of the PF curve would result in a PLN 1,582t increase/decrease of the expected cash flows, − a 10 pp increase in LGD would result in a PLN 3,787t decrease/increase in the expected cash flows.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN thousand)*	**Dec 31 2021 *(PLN thousand)***		
				(No comparative data available as at December 31st 2020 due to the change in the impairment model in 2021)
Loans at fair value through profit or loss	71,978	37,123	*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 main parameter that affects the fair value of loans is the interest rate used to discount expected cash flows to the present value and the value of expected credit losses on the portfolio. If these parameters changed as at December 31st 2021: − interest rates by +/- 1pp − expected credit losses by +/- 10% the fair value would change by +/- 0.27m and PLN 0.8m, respectively (PLN 0.32m and PLN 2.7m as at December 31st 2020).

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	Dec 31 2020 *(PLN thousand)*	**Dec 31 2021 *(PLN thousand)***		
Deferred tax assets and liabilities	31,180 (Assets) 134,339 (Provisions)	37,560 (Assets) 167 077 (Provisions)	*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	81,953	61,474	*3.2 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 a fully consolidated transaction.
Functional currency at InvestCapital	86,460	75,732	*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 have been applied with respect to all the reporting periods presented in the consolidated financial statements.

There are no significant changes in accounting policies in 2021.

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.

The method of proportionate consolidation consists in adding together individual items of the relevant financial statements of the parent (in full) with a portion of the value (proportionate to the shares held by the entities of the group) of those items of the financial statements of the jointly-controlled entities and making eliminations:

1) the value, at cost, of the parent's and other consolidated entities' interests in jointly-controlled entities, with that part of net assets of the jointly-controlled entities (measured at fair value) which corresponds to the interests of those entities in the jointly-controlled entities at the date on which joint control commences,
2) receivables, liabilities and settlements of a similar nature between the consolidated entities, income and expenses resulting from transactions between those entities, as well as dividends paid by the jointly-controlled entity to other consolidated entities - in full amount,

3) profits or losses (included in assets subject to consolidation) resulting from transactions between the consolidated entities - in proportion to shares held.

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. Retained earnings from foreign operations are translated at the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the 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.

As at Dec 31 2021 and Dec 31 2020 the Group had no financial assets measured at fair value through other comprehensive income.

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 or group of financial assets 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 significant 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 initial 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 two 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.

Loans at amortised cost

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 (if they meet the SPPI test) 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 and is recalculated in the event of a change in market rates. 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.

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

Expected credit losses for a loan are determined based on the following parameters: PD (probability of default understood as a state of being in default), PPS (probability of prepayment), LGD parameter (loss given default) and EAD parameter (exposure at default).

The PD (probability of default) parameter is determined based on a lifetime PD model that returns the probability of default in a given month. The parameter is set at the level of defined rating grades based on behavioural scoring.

The PPS (probability of prepayment) parameter is determined based on a prepayment model that returns the probability of repayment in a given month.

The Markov model of the flow of balances was used to determine the LGD (loss given default), taking into account, among other things, the following information:

- Indicator of default (determined at default)
- Months After Default (MAD)
- Payments made by the customer
- Sale of debt
- Debt sale price
- Accrued fees and interest

Based on the indicator of default and MAD, the state of each loan account is determined, while the matrix of balances transition between states, including ending (absorbing) states, determines the present value of expected cash flows and the required level of provisioning.

The EAD (exposure at default) parameter is determined based on repayment schedules.

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.

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 and other significant customer rating from initial recognition.

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 (past-due events) and no impairment have been identified between the date of recognition and the reporting date, days past due are fewer than 30 and no impairment has been identified. Indications of a significant risk increase include, among other things, feedback from clients reporting possible problems with timely repayments and requests for credit holidays, as well as a significant deterioration of the customer's rating since initial recognition. 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 30 days. 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, as well as a significant deterioration of the customer's rating since initial recognition. 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, including where the loan is past due by over 90 days This basket also includes loans in restructuring, fraud loans, bankruptcies and loans where the borrower has died. For loans classified as in Basket 3, lifetime expected credit losses are recognised. In Basket 3, interest income is recognised on the net carrying amount.

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 .

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 expected 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).

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'.

3.4.2.Trade and other receivables

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 allowances for expected credit 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 receivables.

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

- Basket 1 – includes receivables for which there has been no significant increase in credit risk and no impairment has been identified since their recognition (no past-due events). The expected losses on such receivables are recognised for a time horizon of the next 12 months.
- Basket 2 – includes receivables for which there has been a significant increase in credit risk (past-due event) between the date of recognition and the reporting date, with no impairment identified. For such receivables, expected losses are recognised for the remaining life of the asset.
- Basket 3 – includes receivables in the case of which impairment has been identified (receivables past due by over 90 days). For such receivables, expected lifetime losses are recognised.

Impairment of trade and other receivables

The KRUK Group recognises an 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.

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 default or past due event,
- • probability that the borrower will enter bankruptcy or other financial reorganisation.

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 the cash or in-kind form.

3.4.3. Modification of contractual cash flows from financial assets

If the terms of a financial asset change, it is assessed whether the cash flows from the modified asset are materially different.

If the cash flows are materially different, the contractual rights to the cash flows from the original financial asset are considered to have expired. In such a case, the original financial asset is recognised at fair value plus eligible transaction costs. Any fees received as a result of the modification are recognised as follows:

- fees that are included in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset,
- other fees are recognised in the statement of profit or loss as part of gain or loss on derecognition of the asset.

If cash flows are modified when the borrower is in financial distress, the purpose of the modification is usually to maximise recovery of the original terms of the contract rather than to create a new asset with substantially different terms. Such an approach means that in such cases the criteria for derecognition of the asset are usually not met.

If modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, the gross carrying amount of the financial asset is first remeasured using the original effective interest rate of the asset and subsequently the resulting adjustment is recognised as a gain or loss from modification in profit or loss. In the case of variable rate financial assets, the original effective interest rate used to calculate the gain or loss on modification shall be adjusted to reflect the market conditions prevailing at the time of modification. All costs and fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining life of the modified financial asset.

If the modification is made due to the borrower's financial distress, then the gain or loss is presented together with impairment charges. Otherwise, they are presented as interest income calculated using the effective interest rate.

3.4.4. 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 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.

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 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 at net amounts in the statement of financial position only if the Group holds a legally valid title to set off specified financial assets and liabilities and if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

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.

3.4.5. 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 Group 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);

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.

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).

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 Group 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

Hedge accounting for a net investment in a foreign operation consists in hedging the currency exposure of the interest 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 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).
  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 must not 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 the counterparties' 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 must not 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 (in the event of an item of property, plant and equipment produced internally). Rebates, discounts and other similar concessions and returns reduce the asset acquisition cost. Production cost of property, plant and equipment and property, plant and equipment under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date). Production cost also comprises preliminary estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such estimation is required. Purchased software, necessary for the proper operation of related equipment, is capitalised as a part of this equipment.
Borrowing costs related to the acquisition or production of certain assets increase their acquisition or production cost.
If a specific item of property, plant and equipment consists of separate and material components with different economic useful lives, such components are treated as separate assets.
Gain or loss on disposal of an item of property, plant and equipment is estimated as the difference between the disposal proceeds and the carrying amount of the disposed item, and is recognised in current period's profit or loss under other income or other expenses.

3.5.2. 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.
Assets are depreciated beginning in the month after they are placed in service. 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 properties taken over as part of investments in debt portfolios)

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 income (proceeds) from sale. The value of the property 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 the amount is deducted from the amount of the indebted person's debt. Foreclosed property is initially measured at the projected value of the planned recovery from receivables as of the acquisition date. Subsequent to initial recognition, it is measured at the lower of the value of the planned recovery from receivables of the acquisition date 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 initially recognised at cost. Following initial recognition, intangible assets are reduced by amortisation charges and impairment losses.
The Group recognises development expenses as 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	5 years
Development expense	1-5 years

The reliability of applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed at the end of each reporting period and adjusted in justified cases.

3.7.5. 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 intangible assets under development. 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 assets amortised over time 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 policies applied in the valuation of such portfolios, see Notes 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 present value of financial assets; the Group continues to charge interest on such impaired assets. If any subsequent circumstances indicate that the indicators of impairment ceased, reversal of allowances for expected credit 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 (for goodwill), for other non-financial assets in the case of identification of an impairment indicator.

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 recognised on a business combination is allocated to the cash-generating units for which synergies are expected as a result of the 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. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that impairment loss has decreased or no longer exists. 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 3.4.4.

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. Pension contributions paid to the Social Insurance Institution are classified as defined contribution plans. 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'.

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 based on expected cash flows. Expected cash flows are determined on the basis of life tables prepared based on historical data on loan prepayments. The life of a loan changes with the time from loan origination; life tables are also periodically back tested and changed if testing reveals a need for change. For Basket 1 and Basket 2, interest income accrues on the gross carrying amount of the loans, and for Basket 3 – on the net carrying amount. If there is a change in the NBP reference rates, resulting in a change in interest rates on loans to customers, it is recognised in accordance with IFRS 9.B5.4.5, i.e. a new effective interest rate is determined. If the expectations of future cash flows change, the provisions of IFRS 8.B5.4.6 are applied, i.e. a new gross carrying amount is determined using the existing effective interest rate. Any difference between the gross carrying amount and the new carrying amount is charged to revenue from loans.

3.16.3. Revenue from other services

Revenue from 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 the provision of other services is recognised when it arises. Revenue from 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. It includes in particular income from sale and liquidation of property, plant and equipment, income/expenses from recharged services, damages received, 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,
- provisions 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 foreign exchange gains on translation of monetary items. 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 on external financing, derivatives, hedging instruments, and foreign exchange losses on translation of monetary items.. 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 for the parent and group companies, 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 carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 (three years). For each reporting date, the Group reviews the expected realizations from retained earnings in subsidiaries. Any adjustments to the amount of deferred tax liabilities are made based on results of the review.

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 2021 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 2022:

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
IFRS 17 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach). The purpose of the amendments is to: – reduce costs by simplifying some of the standard requirements; – facilitate clarification of financial results; – facilitate transition to the new standard by deferring the effective date of the standard until 2023 and introducing additional expedients to facilitate the first implementation of IFRS 17.	The amendments have no significant effect on the consolidated financial statements.	January 1st 2023

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 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; Annual improvements 2018-2020	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments to IAS 16 *Property, Plant and Equipment* prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the corresponding costs in the statement of profit or loss. The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specify what costs the Company considers when assessing whether a contract will result in a loss. Annual improvements introduce minor amendments to IFRS 1 *First-time Adoption of IFRSs*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and *Illustrative Examples* accompanying IFRS 16 *Leases*.	The amendments have no significant effect on the consolidated financial statements.	January 1st 2022
Amendments to IAS 1 and IFRS Practice statement 2 *Disclosure of Accounting Policies*	The amendments to IAS 1 and IFRS Practice statement 2 are intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. Guidance was provided on how an entity can identify material accounting policy information. The amendments clarify that accounting policy information may be material by its nature even if the amounts are immaterial and if users of financial statements would need it to understand other relevant information in the financial statements.	The amendments have no significant effect on the consolidated financial statements.	January 1st 2023
Amendment to IAS 8, *Definition of Accounting Estimates*	In the amendment to IAS 8 *Definition of Accounting Estimates*, the definition of change in accounting estimates was replaced by the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting principles and accounting estimates are related and how a change in valuation technique constitutes a change in accounting estimate. The introduction of the definition of accounting estimates and other	The amendments have no significant effect on the consolidated financial statements.	January 1st 2023

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 IAS 8 were intended to help entities distinguish changes in accounting policies from changes in accounting estimates.		
Amendment to IFRS 16 *Leases* - COVID-19-Related Rent Concessions	The amendments provide for the possibility of exempting lessees from having to account for rent concessions as modifications in accordance with IFRS 16 if they meet certain conditions and are a direct consequence of the COVID-19 pandemic. Extension of the exemption by one year from June 30th 2021 (amendment of May 2020).	The amendments have no significant effect on the consolidated financial statements.	April 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 date for periods beginning on or after the date
IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information*	The amendments provide a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2023
Amendments to IAS 1 *Presentation of Financial Statements* – Classification of Liabilities	The amendments concern the presentation of liabilities in the statement of financial position. In particular, they clarify that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. The amendments will apply prospectively.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2022
Amendments to IAS 12 *Deferred tax on assets and liabilities arising from a single transaction*	The amendments are intended to clarify how companies should account for deferred taxes on leases and extinguished liabilities.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2023

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,
- Spain,
- 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 year ended December 31st 2021	Poland		Romania	Italy	Spain	Other foreign markets	Unallocated income / expenses	Head Office	TOTAL
	Poland excluding Wonga.pl	Wonga.pl							
Revenue	**800,346**	**72,088**	**412,264**	**279,445**	**112,539**	**61,236**	**4,766**	**-**	**1,742,683**
Purchased debt portfolios	751,228	-	395,726	270,132	97,306	61,236	-	-	**1,575,627**
including revaluation of recovery projections	*109,610*	-	*118,015*	*35,920*	*(4,604)*	*11,091*	-	-	***270,032***
Credit management services	23,926	-	13,141	9,312	15,234	-	-	-	**61,614**
Other products	25,192	72,088	3,397	-	-	-	-	-	**100,676**
Other income	-	-	-	-	-	-	4,766	-	**4,766**
Direct and indirect costs									**(630,525)**
Purchased debt portfolios	-	-	-	-	-	-	-	-	**(533,682)**
Credit management services	-	-	-	-	-	-	-	-	**(46,677)**
Other products	-	-	-	-	-	-	-	-	**(41,667)**
Unallocated expenses	-	-	-	-	-	-	-	-	**(8,499)**
Gross profit[1]									**1,112,158**
Purchased debt portfolios	-	-	-	-	-	-	-	-	**1,041,945**
Credit management services	-	-	-	-	-	-	-	-	**14,937**
Other products	-	-	-	-	-	-	-	-	**59,009**
Unallocated income / expenses	-	-	-	-	-	-	-	-	**(3,733)**
Administrative expenses	-	-	-	-	-	-	-	-	**(204,187)**
EBITDA [2]	506,369	36,331	295,487	105,193	18,134	29,513	(3,733)	(79,324)	**907,971**
Amortisation	-	-	-	-	-	-	-	-	**(48,355)**

Finance income/costs	-	-	-	-	-	-	-	-	**(85,660)**
Profit before tax	-	-	-	-	-	-	-	-	**773,956**
Income tax	-	-	-	-	-	-	-	-	**(79,053)**
Net profit	-	-	-	-	-	-	-	-	**694,903**
Carrying amount of debt portfolios	**2,668,263**	**-**	**887,120**	**971,837**	**419,784**	**153,172**	**-**	**-**	**5,100,176**
Carrying amount of loans	**48,130**	**257,871**	**10,335**	**-**	**-**	**-**	**-**	**-**	**316,336**
Cash recoveries	**1,074,347**	**-**	**564,652**	**313,132**	**173,074**	**90,601**	**-**	**-**	**2,215,806**

[1] Gross profit = operating income – operating expenses [2] EBITDA = operating profit – depreciation and amortisation

For the year ended December 31st 2020

	Poland		Romania	Italy	Spain	Other foreign markets	Unallocated income / expenses	Head Office	TOTAL
	Poland excluding Wonga.pl	Wonga.pl							
Revenue	**543,572**	**78,409**	**314,961**	**117,171**	**37,827**	**46,078**	**19,792**	**-**	**1,157,812**
Purchased debt portfolios	497,860	-	298,745	107,175	26,483	46,078	-	-	**976,341**
including revaluation of recovery projections	*(38,329)*	-	*(9,393)*	*(96,450)*	*(60,102)*	*(996)*	-	-	***(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**
Other income	-	-	-	-	-	-	19,792	-	**19,792**
Direct and indirect costs									**(619,077)**
Purchased debt portfolios	-	-	-	-	-	-	-	-	**(468,381)**
Credit management services	-	-	-	-	-	-	-	-	**(67,620)**
Other products	-	-	-	-	-	-	-	-	**(69,893)**
Unallocated expenses	-	-	-	-	-	-	-	-	**(13,183)**
Gross profit[1]									**538,732**
Purchased debt portfolios	-	-	-	-	-	-	-	-	**507,959**
Credit management services	-	-	-	-	-	-	-	-	**(10,799)**
Other products	-	-	-	-	-	-	-	-	**34,963**
Unallocated income / expenses	-	-	-	-	-	-	-	-	**6,609**
Administrative expenses	-	-	-	-	-	-	-	-	**(159,926)**
EBITDA [2]	276,832	16,271	220,513	(29,493)	(79,940)	19,350	6,609	(51,338)	**378,805**
Depreciation and amortisation	-	-	-	-	-	-	-	-	**(46,543)**
Finance income/costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(127,824)**

Profit before tax	-	-	-	-	-	-	-	-	**204,441**
Income tax	-	-	-	-	-	-	-	-	**(123,443)**
Net profit	-	-	-	-	-	-	-	-	**80,998**
Carrying amount of debt portfolios	**1,875,963**	-	**888,806**	**734,500**	**366,296**	**118,515**	-	-	**3,984,080**
Carrying amount of loans	**32,824**	**186,013**	**5,807**	-	-	-	-	-	**224,644**
Cash recoveries	**862,923**	-	**525,252**	**250,126**	**110,155**	**85,419**	-	-	**1,833,874**

[1] Gross profit = operating income – operating expenses [2] EBITDA = operating profit – depreciation and amortisation

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

By reportable segments

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Revenue from purchased debt portfolios	1,575,627	976,341
Revenue from credit management services	61,614	56,821
Revenue from other services	100,676	104,856
Other income	4,766	19,792
	1,742,683	1,157,812

Interest income on debt portfolios and loans measured at amortised cost

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest income on debt portfolios	991,948	970,076
Interest income on loans	89,690	113,336
	1,081,638	1,083,412

Gain/(loss) on expected credit losses

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Gain/(loss) on expected credit losses from debt portfolios	597,274	29,249
Gain/(loss) on expected credit losses from loans	(23,910)	(23,106)
	573,364	6,143

Income from financial assets measured at amortised cost

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Revenue from purchased debt portfolios	1,575,627	976,341
Revenue from loans	62,833	90,230
	1,638,460	1,066,571

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 thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Interest income	991,948	970,076
Other income/expenses from purchased debt portfolios	(26,094)	(27,114)
Gain/(loss) on expected credit losses from purchased debt portfolios	597,274	29,249
Gain/(loss) on sale of debts	12,499	4,130
	1,575,627	976,341

Other income/expenses from purchased debt portfolios

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Foreign currency gains/(losses)	(13,215)	(10,981)
Costs of loyalty scheme valuation	(7,174)	(9,513)
Costs of provision for overpayments	(5,705)	(6,620)
	(26,094)	(27,114)

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

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Revaluation of recovery projections	270,032	(205,271)
Deviations of actual recoveries, decreases on early collections in collateralised cases, payments from original creditor.	327,242	234,520
	597,274	29,249

In the previous reporting year, the results on expected financial losses were materially affected by the risks related to the outbreak and rapid development of the Covid-19 pandemic, which resulted in lower payments and negative remeasurements. This year, due to the significant deviation in contributions, the Group sees the potential for a positive revision of forecasts.

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. discount rate in case of change in the amount of the purchased debt portfolio,
b. cash flows estimation period,
c. expected future cash flows estimated using the current data and debt collection tools and processes.
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 2021	Dec 31 2020
Discount rate *	8.00%–147.10%	8.10%–170.19%
Period for which collections have been estimated	Jan 2022–Jan 2042	Jan 2021–Jan 2041
Undiscounted value of expected future recoveries	9,989,010	7,942,787

** Applicable to 99% of debt portfolios.*

Projected ERC from debt portfolios (undiscounted value)

PLN thousand

	Dec 31 2021	Dec 31 2020
Period		
Up to 12 months	1,813,880	1,568,291
From 1 to 2 years	1,579,581	1,405,952
From 2 to 3 years	1,327,217	1,177,335
From 3 to 4 years	1,052,803	864,985
From 4 to 5 years	806,576	635,514
From 5 to 6 years	657,405	493,861
From 6 to 7 years	520,119	384,010
From 7 to 8 years	443,389	303,437
From 8 to 9 years	357,607	253,703
From 9 to 10 years	300,189	196,721
From 10 to 11 years	258,917	154,925
From 11 to 12 years	228,227	132,913
From 12 to 13 years	201,246	115,737
From 13 to 14 years	173,649	101,225
From 14 to 15 years	128,663	84,153
Over 15 years	139,542	70,025
	9,989,010	7,942,787

Revenue from loans

Revenue from loans measured at amortised cost

PLN thousand

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest income	89,690	113,336
Allowance for expected credit losses	(23,910)	(23,106)
Profit/(loss) on sale of loans	(2,947)	-
	62,833	90,230

Revenue from loans measured at fair value

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest income	40,243	6,831
Remeasurement	(11,569)	(1,803)
	28,674	5,029

Revenue from other services

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Revenue from credit management services	61,614	56,821
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.	9,169	9,600
	70,783	66,421

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 5% of total revenue from fee-based credit management (2020: 6%).

Other income

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Re-billed costs of services and court fees		1,423	23
Recovery of written-off receivables and expenses		781	483
Gain on sale of property, plant and equipment		455	597
Reversal of allowance for expected credit losses on receivables	*29.1*	359	18
Compensation for motor damage		351	374
Grants		106	9,222
Other cooperation		43	127
Adjustment to valuation of stock option plan		-	5,538
Settlement of lease payments under terminated contracts		-	1,050
Rent concessions related to COVID-19		-	250
Other markets		1,248	2,110
		4,766	19,792

6. Services

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Credit management services[1]	(34,872)	(34,670)
IT services	(22,839)	(18,249)
Legal assistance services [2]	(22,647)	(18,164)
Administrative and accounting support services	(13,964)	(15,428)
Postal and courier services	(13,589)	(10,613)
Banking services [3]	(9,244)	(10,535)
Marketing and management services	(8,707)	(4,672)
Space rental and service charges	(7,906)	(7,929)
Communications services	(7,683)	(7,056)
Printing services	(1,915)	(1,921)
Other auxiliary services	(1,785)	(1,620)
Security	(1,716)	(1,645)
Repair of vehicles	(1,031)	(1,171)
Repair and maintenance services	(727)	(546)
Other rental	(581)	(28)
Recruitment services	(516)	(408)
Packing services	(235)	(255)
Transport services	(94)	(18)
	(150,051)	(134,928)

[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 thousand	***Note***	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Court fees		(231,757)	(192,073)
Taxes and charges		(38,454)	(38,114)
Advertising		(9,833)	(6,029)
Raw materials and consumables used		(9,550)	(7,952)
Provision for possible differences relative to straight-line basis settlement	*28*	14,132	(21,852)
Business trips		(1,614)	(1,620)
Staff training		(1,509)	(1,392)
Motor insurance		(1,221)	(1,238)
Non-deductible VAT		(916)	(169)
Property insurance		(770)	(688)
Entertainment expenses		(761)	(236)
Refund of litigation costs		(748)	(222)
Non-compete agreements		(641)	(357)
Losses caused by motor damage		(438)	(417)
Allowances for expected credit losses on receivables	*29.1*	(329)	(415)
Membership fees		(286)	(435)
Goodwill impairment losses	*14*	-	(25,051)
Other markets		(3,478)	(3,954)
		(288,173)	(302,214)

8. Employee benefits expense

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Salaries and wages	(301,412)	(270,314)
Old-age and disability pension contributions	(22,102)	(20,036)
Other social security contributions	(52,729)	(45,449)
Contribution to the State Fund for the Disabled	(1,669)	(1,681)
Equity-settled cost of stock option plan [1]	(18,576)	(4,382)
	(396,488)	(341,862)

[1] The management stock option plans are described in Note 21.

9. Finance income and costs

Recognised in profit or loss for the current period

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

Finance income

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest income on bank deposits	45	89
Interest income on derivative instruments – FORWARD	3,611	-
Net foreign exchange losses	7,823	-
	11,479	89

Finance costs

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest and commission expense on financial liabilities measured at amortised cost	(92,697)	(100,898)
including interest	*(77,766)*	*(85,792)*
Net foreign exchange losses	-	(8,835)
Interest income/expense on hedging instruments – IRS	(9,179)	(4,422)
Interest income/expense on derivative instruments – CIRS	4,736	(13,759)
	(97,139)	(127,913)

Effect of exchange rate movements on statement of profit or loss

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1-Dec 31 2020
Realised exchange gains/(losses)	*9*	9,413	4,384
Unrealised exchange gains/(losses)	*9*	(17,236)	(13,219)
Settlement of forward contracts	*9*	3,611	-
Revaluation of debt portfolios due to exchange rate movements	*5*	(13,215)	(10,981)
		(17,427)	(19,816)

Recognised in other comprehensive income

Exchange differences on translating foreign operations

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Exchange differences on translating foreign operations	(5,633)	111,579
Attributable to:		
Owners of the Parent	(5,652)	111,579
Non-controlling interests	19	-
Finance income/(cost) recognised directly in other comprehensive income	(5,633)	111,579

A decrease in the exchange rate differences from the conversion of foreign entities in 2021 compared to 2022 as a result of the exchange rate fluctuations at a similar level in the above-mentioned years.

10. Income tax

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

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Current income tax			
Current income tax payable		(52,694)	(26,782)
Deferred income tax			
Related to temporary differences and their reversal	*17*	(26,359)	(96,661)
Income tax recognised in profit or loss		(79,053)	(123,443)
Income tax recognised in comprehensive income		(79,053)	(123,443)

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 thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Profit before tax	773,956	204,441
Tax calculated at the Parent's rate (19%)	(147,052)	(38,844)
Effect of application of other tax rates abroad and effect of deferred tax	(377)	3,724
Effect of changes in strategy towards subsidiary	23,259	-
Effect of differences resulting from control over the dates of reversal of temporary differences in the valuation of the net assets of subsidiaries and the probability of their realization in the foreseeable future; and other of non-deductible expenses/non-taxable income	45,117	(88,323)
Income tax recognised in profit or loss	(79,053)	(123,443)
Effective tax rate (%)	10.21%	60.38%

The lower effective tax rate in 2021 compared to 2020 results mainly from the significant share of the financial results of consolidated companies, the tax value of which will be realized over a period of more than 3 years from the balance sheet date. In turn, the higher tax rate in 2020 was mainly due to the recognition of new realizations of the value of the consolidated companies over the next 3 years in the deferred tax provision (see Note 17).

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 – in the opinion of the Group – 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 *PLN thousand*	*Note*	Dec 31 2021	Dec 31 2020
Assets			
Non-current assets			
Property, plant and equipment	*12*	80,249	91,864
Other intangible assets	*13*	43,474	50,729
Goodwill	*14*	23,840	23,916
Investments	*15*	3,592,179	2,691,651
Hedging instruments	*25*	12,804	-
Deferred tax asset	*17*	37,560	31,180
Total non-current assets		3,790,106	2,889,340
Current assets			
Inventories	*16*	20,295	32,069
Investments	*15*	1,824,333	1,517,073
Trade receivables	*18*	22,873	16,804
Other receivables	*18*	35,079	28,357
Hedging instruments	*25*	999	-
Other assets	*20*	16,551	13,836
Cash and cash equivalents	*19*	199,164	145,552
Total current assets		2,119,294	1,753,691
Total assets		5,909,400	4,643,031
Equity and liabilities			
Equity			
Share capital	*21*	19,013	19,011
Share premium		333,264	310,430
Cash flow hedging reserve		17,885	(14,783)
Translation reserve		75,708	81,360
Other capital reserves		122,202	103,626
Retained earnings		2,032,745	1,544,127
Equity attributable to owners of the Parent		2,600,817	2,043,771
Non-controlling interests		(590)	(311)
Total equity		2,600,227	2,043,460
Non-current liabilities			
Borrowings, debt securities and leases	*22*	2,283,629	1,585,898
Deferred tax liability	*17*	167,077	134,339
Provisions	*28*	16,433	13,463
Hedging instruments	*25*	-	18,386
Total non-current liabilities		2,467,139	1,752,086

Current liabilities			
Borrowings, debt securities and leases	*21*	585,391	636,278
Trade and other payables	*27*	162,986	112,227
Income tax payable		18,369	5,223
Employee benefit obligations	*26*	48,661	42,860
Provisions	*28*	26,627	39,661
Derivatives	*24*	-	11,236
Total current liabilities		842,034	847,485
Total liabilities		3,309,173	2,599,571
Total equity and liabilities		5,909,400	4,643,031

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

In 2021, comparative data was reclassified into a long-term and short-term portion.

12. Property, plant and equipment

Gross carrying amount of property, plant and equipment

PLN thousand

	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

PLN thousand

	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 2021	97,323	44,293	35,558	7,830	338	185,341
Purchase	838	5,902	16,101	393	777	24,011
Sale/ liquidation	(3,028)	(4,016)	(16,989)	-	-	(24,033)
Effect of exchange rate changes*	(564)	(125)	(79)	41	1	(726)
Gross carrying amount as at Dec 31 2021	94,569	46,054	34,591	8,264	1,116	184,593

Accumulated amortisation

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated amortisation 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 thousand	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 2021	(32,771)	(31,651)	(22,419)	(6,636)	-	(93,476)
Depreciation	(15,971)	(6,359)	(6,969)	(1,748)	-	(31,048)
Decrease resulting from sale/ liquidation	1,783	3,553	14,674	-	-	20,010
Effect of exchange rate changes*	121	80	24	(56)		169
Accumulated depreciation as at Dec 31 2021	(46,837)	(34,377)	(14,690)	(8,440)	-	(104,344)

PLN thousand	**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 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
As at Jan 1 2021	64,552	12,642	13,139	1,194	338	91,864
As at Dec 31 2021	47,731	11,677	19,901	(176)	1,116	80,249

* *Refers to exchange rate differences from the conversion of statements of entities in a currency other than PLN*

In 2021 and 2020, there were no impairment losses.

Collaterals on property, plant and equipment are presented in note 23.

As at 31/12/2021 and 31/12/2020, the value of contractual obligations for the purchase of fixed assets was PLN 0.

The data presented in the *Right-of-use* section is disclosed in the table above.

Right of use

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	51,491	48,598
Plant and equipment	130	308
Vehicles	9,589	16,423
	61,211	65,329
Cost of depreciation of right-of-use assets in the reporting period, by class of underlying asset		
Buildings and structures	(16,540)	(16,243)
Plant and equipment	(99)	(183)
Vehicles	(5,996)	(6,637)
	(22,636)	(23,063)
Increase in right-of-use assets	24,474	17,649
Decrease in right-of-use assets due to liquidation/termination of contract	(1,723)	(1,085)
Translation differences	(2,671)	2,380
Carrying amount of right-of-use assets, by class of underlying asset at end of period		
Buildings and structures	42,157	51,491
Plant and equipment	351	130
Vehicles	16,148	9,589
	58,656	61,211
Interest expense on lease liabilities	2,240	2,546
Cost relating to variable lease payments not included in the measurement of lease liabilities	-	11
Total cash outflow in connection with leases	25,718	26,552

13. Other intangible assets

PLN thousand	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 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
Gross carrying amount as at Jan 1 2021	91,766	369	219	3,323	95,677
Produced internally	580	-	-	-	580
Purchase	8,593	-	1,312	1,136	11,041
Liquidation	(3,853)	-	-	-	(3,853)
Accounting for assets under development	5,401	-	(1,180)	(4,221)	-
Effect of exchange rate changes*	(46)	-	-	-	(46)
Gross carrying amount as at Dec 31 2021	102,441	369	351	238	103,400
					-

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation					
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)
Accumulated amortisation as at Jan 1 2021	(44,578)	(369)	-	-	(44,947)
Amortisation	(17,307)	-	-		(17,307)
Decrease resulting from sale/ liquidation	2,313		-		2,313
Effect of exchange rate changes*	15	-			15
Accumulated amortisation as at Dec 31 2021	(59,557)	(369)	-	-	(59,926)

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2020	49,207	-	69	976	50,252
As at Dec 31 2020	47,188	-	219	3,323	50,729
As at Jan 1 2021	47,188	-	219	3,323	50,729
As at Dec 31 2021	42,885	-	351	238	43,474

In 2021 and 2020, there were no impairment losses.

* *Refers to exchange rate differences from the conversion of statements of entities in a currency other than PLN*

14. Goodwill

PLN thousand	Kancelaria Prawna RAVEN	KRUK Espana S.L.	ERIF BIG S.A.	Total
Gross carrying amount as at Jan 1 2020	299	46,182	725	47,206
Increase	-	-	-	-
Decrease	-	-	-	-
Translation differences	-	1,761	-	1,761
Gross carrying amount as at Dec 31 2020	299	47,943	725	48,967
Gross carrying amount as at Jan 1 2021	299	47,943	725	48,967
Increase	-	-	-	-
Decrease	-	-	-	-
Translation differences	-	(76)	-	(76)
Gross carrying amount as at Dec 31 2021	299	47,867	725	48,891
Impairment losses				
Impairment loss as at Jan 1 2020	-	-	-	-
Increase	-	(25,051)	-	(25,051)
Decrease	-	-	-	-
Impairment loss as at Dec 31 2020	-	(25,051)	-	(25,051)
Impairment loss as at Jan 1 2021	-	(25,051)	-	(25,051)
Increase	-	-	-	-
Decrease	-	-	-	-
Impairment loss as at Dec 31 2021	-	(25,051)	-	(25,051)
Net carrying amount				
As at Jan 1 2020	299	46,182	725	47,206
As at Dec 31 2020	299	22,892	725	23,916
As at Jan 1 2021	299	22,892	725	23,916
As at Dec 31 2021	299	22,816	725	23,840

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 6.1% as at December 31st 2021 and 6.0% as at December 31st 2020). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 1.58% for Spain (as at December 31st 2020: 1.35%).

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In 2021, there was no indication that a further impairment loss should be recognised on Espand goodwill (impairment loss on Espand goodwill as at December 31st 2020: PLN 25,051 thousand).

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.

Scenario 1 assumes steady year-over-year increase in income and expenses over the detailed forecast period (2022–2025) of 17% and 9%, respectively (averaged data).

Scenario 2 assumes a relatively strong year-on-year increase in income and expenses in the first year of the forecast, while in 2023-2025 the assumed year-on-year increase is significantly lower at 10% 9%, respectively (averaged data).

The results are shown in the table below:

Value in use of the assets

	weighted average cost of capital		
PLN thousand	**6.1%**	**5.6%**	**6.6%**
Scenario 1	109,075	123,425	97,617
Scenario 2	41,774	47,095	37,524
Value for a 50/50 probability	75,424	85,260	67,570

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 6.1%, and the maximum discount rate at which the carrying amount of the ESPANF GCU goodwill is equal to the recoverable amount.

PLN thousand	**Dec 31 2021**		**Dec 31 2020**	
	Headroom	**Marginal discount rate**	**Headroom**	**Marginal discount rate**
Kruk Espana Inkaso (CGU ESPAND goodwill)	52,624	13.84%	13,250	8.24%

15. Investments

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Investments in debt portfolios	5,100,176	3,984,080
Loans measured at amortised cost	279,213	152,666
Loans measured at fair value	37,123	71,978
	5,416,512	4,208,724

Investments measured at amortised cost

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Investments in debt portfolios	5,100,176	3,984,080
Loans measured at amortised cost	279,213	152,666
	5,379,389	4,136,746

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 thousand	**Dec 31 2021**	**Dec 31 2020**
Unsecured portfolios	4,344,965	3,285,231
Secured portfolios	755,211	698,849
	5,100,176	3,984,080

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'.*

Some of the debt portfolios are collateralised with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios). Mortgages include primarily residential units and houses of natural persons and a variety of commercial properties in the case of the corporate secured portfolios. The properties are located in variouse locations (both large cities and small towns). Prior to the purchase a due diligence process is carried out for a selected sample from the collateral portfolio, and based on results of the process assumptions are made for the valuation of the remaining properties.

There was no significant change in the quality of the assets pledged as security. Each collateralized portfolio acquired is slightly different, with due diligence performed for the collateralized portfolios each time.

In 2021, the expected credit losses on the collateralised portfolios were PLN -42,590 thousand.

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 44,624 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 44,624 thousand for the data as at December 31st 2020 (a PLN 34,136 thousand increase/decrease, respectively, for the data as at December 31st 2020).

PLN thousand	**Profit or loss for the current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**
Dec 31 2021		
Investments in debt portfolios	44,624	(44,624)
Dec 31 2020		
Investments in debt portfolios	34,136	(34,136)

Sensitivity analysis – time horizon

The sensitivity analysis assumes extension or shortening of the projection period with a simultaneous increase or decrease in the recovery projections (in the case of extension by one year, projected recoveries increased by PLN 9,462 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 16,141 thousand; for 2020, the amounts were PLN 10,706 thousand and PLN 11,163 thousand, respectively).

PLN thousand	**Profit or loss for the current period**	
	extension by one year	**reduction by one year**
Dec 31 2021		
Investments in debt portfolios	107	(226)
Dec 31 2020		
Investments in debt portfolios	56	(74)

For information on the Group’s exposure to credit, currency and interest rate risks associated with its investments, and on allowances for expected credit losses on loans, see Note 29.

Changes in net carrying amount

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

PLN thousand	
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
Payments from original creditor	(2,844)
Revenue from purchased debt portfolios	976,341
Value 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**
Carrying amount of investments in debt portfolios as at Jan 1 2021	**3,984,080**
Purchase of debt portfolios	1,738,002
Cash recoveries	(2,215,806)
Receivables from debt sold	(3,200)
Increase/(decrease) in liabilities to indebted persons due to overpayments	5,705
Valuation of loyalty scheme*	7,174
Revenue from purchased debt portfolios	1,575,627
Value of foreclosed property	(7,156)
Carrying amount of property sold	18,374
Translation differences on debt portfolios**	(2,624)
Carrying amount of investments in debt portfolios as at Dec 31 2021	**5,100,176**

** 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'.*

*** Refers to debt portfolios purchased in a currency other than PLN.*

Changes in expected credit losses

Below are presented changes of expected credit losses on purchased debt portfolios:

PLN thousand	
Cumulative expected credit losses on purchased debt portfolios as at Jan 1 2020	**1,001,754**
Revaluation of recovery projections	(205,271)
Deviations from actual recoveries, decreases on early collections in collateralised cases	215,727
Cumulative expected credit losses on purchased debt portfolios as at Dec 31 2020	**1,012,210**
Cumulative expected credit losses on purchased debt portfolios as at Jan 1 2021	**1,012,210**
Revaluation of recovery projections	270,032
Deviations from actual recoveries, decreases on early collections in collateralised cases	318,320
Cumulative expected credit losses on purchased debt portfolios as at Dec 31 2021	**1,600,562**

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

in thousands of PLN (converted at the average NBP rate on the reporting date)	**Debt portfolios purchased in 2021**	**Debt portfolios purchased in 2020**
Unsecured portfolios	3,047,196	933,979
Secured portfolios	317,840	108,420
	3,365,036	1,042,399

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; “IFC”) 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 2021, the value of the KRUK Group’s investment in the joint operation, disclosed in the statement of financial position, was PLN 61,474 thousand (December 31st 2020: PLN 81,953 thousand), while revenue disclosed in the statement of profit or loss was PLN 37,574 thousand (2020: PLN 33,425) (see Note 2.4).

Loans

In 2021, 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 thousand	**Dec 31 2021**	**Dec 31 2020**
Loans measured at amortised cost	279,213	152,666
Loans measured at fair value	37,123	71,978
	316,336	224,644

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 2021**	**Carrying amount as at Dec 31 2020**
Gross carrying amount of loans measured at amortised cost		
Basket 1	205,064	111,891
Basket 2	65,222	27,677
Basket 3	96,234	84,099
POCI loans	1,866	1,092
	368,386	224,759
Allowance for expected credit losses		
Basket 1	9,657	11,330
Basket 2	7,538	4,081
Basket 3	71,977	56,681
	89,172	72,093
Net carrying amount		
Basket 1	195,406	100,561
Basket 2	57,684	23,596
Basket 3	24,257	27,418
POCI loans	1,866	1,092
	279,213	152,666

The increase in the proportion of loans classified in Basket 2 was a result of expanding of the list of indicators that are constituted as grounds for qualifying receivables in this basket, including indicators of deterioration of the customer's credit standing since initial recognition.

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

PLN thousand	
Value of loans measured at amortised cost as at Jan 1 2020	**214,617**
New disbursements	207,009
Repayments	(355,941)
Interest income	113,336
Allowance for expected credit losses	(23,106)
Profit/(loss) on sale of loans	(3,606)
Currency translation differences	357
Value of loans measured at amortised cost as at Dec 31 2020	**152,666**
Value of loans measured at amortised cost as at Jan 1 2021	**152,666**
New disbursements	483,783
Repayments	(420,211)
Interest income	89,690
Allowance for expected credit losses	(23,910)
Profit/(loss) on sale of loans	(2,947)
Currency translation differences	142
Value of loans measured at amortised cost as at Dec 31 2021	**279,213**

Changes in the gross carrying amount and allowances 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 thousand	**Profit or loss for the current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**
Dec 31 2021		
Loans measured at amortised cost	2,790	(2,790)
Dec 31 2020		
Loans measured at amortised cost	1,656	(1,652)

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 thousand	**Profit or loss for the current period**	
	extension by one month	**reduction by one month**
Dec 31 2021		
Loans measured at amortised cost	(6,011)	5,472
Dec 31 2020		
Loans measured at amortised cost	(3,886)	4,179

For the Group's exposure to credit, currency and interest rate risks in respect of its investments and the allowance for expected credit losses on its loans, see Note 29.

Loans measured at fair value

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

PLN thousand	
Value of loans measured at fair value as at Jan 1 2020	**-**
New disbursements	132,068
Repayments	(65,118)
Interest income	6,831
Remeasurement	(1,803)
Value of loans measured at fair value as at Dec 31 2020	**71,978**
Value of loans measured at fair value as at Jan 1 2021	**71,978**
New disbursements	211,890
Repayments	(275,419)
Interest income	40,243
Remeasurement	(11,569)
Value of loans measured at fair value as at Dec 31 2021	**37,123**

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 thousand	**Profit or loss for the current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**
Dec 31 2021		
Loans measured at fair value	366	(377)
Dec 31 2020		
Loans measured at fair value	718	(718)

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 thousand	**Profit or loss for the current period**	
	extension by one month	**reduction by one month**
Dec 31 2021		
Loans measured at fair value	(811)	767
Dec 31 2020		
Loans measured at fair value	(1,936)	640

Sensitivity analysis – interest rate

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

PLN thousand

	Profit or loss for the current period	
	1 pp increase in discount rate	**1 pp decrease in discount rate**
Dec 31 2021		
Loans measured at fair value	272	(267)
Dec 31 2020		
Loans measured at fair value	(314)	320

16. Inventories (including properties taken over as part of investments in debt portfolios)

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Real property	20,295	32,056
Other inventories	-	13
	20,295	32,069

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 thousand	
Carrying amount of property held as at Jan 1 2020	**34,655**
Value of foreclosed property	15,864
Carrying amount of property sold	(17,153)
Impairment losses	(1,761)
Currency translation differences on property valuation*	451
Carrying amount of property held as at Dec 31 2020	**32,056**
Carrying amount of property held as at Jan 1 2021	**32,056**
Value of foreclosed property	7,156
Carrying amount of property sold	(13,131)
Impairment losses	(5,628)
Currency translation differences on property valuation*	(158)
Carrying amount of property held as at Dec 31 2021	**20,295**

* *Refers to exchange rate differences from the conversion of statements of entities in a currency other than PLN*

To better reflect the underlying drivers of the change in the value of non-current assets, the Group has combined proceeds from disposal of real property and revenue into a single line item 'Carrying amount of property sold', and transferred impairment loss to a separate line item.

As at December 31st 2021, the inventory write-down was PLN 5,628 thousand (December 31st 2020: PLN 1,761 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 thousand	Assets		Provisions		Net carrying amount	
	Dec 31 2021	**Dec 31 2020**	**Dec 31 2021**	**Dec 31 2020**	**Dec 31 2021**	**Dec 31 2020**
Property, plant and equipment	6,279	5,581	(6,198)	(5,659)	81	(78)
Intangible assets	-	-	(1,745)	(1,630)	(1,745)	(1,630)
Tax losses deductible in future periods	8,155	7,967	-	-	8,155	7,967
Trade and other receivables	-	-	(245)	(268)	(245)	(268)
Borrowings and other debt instruments	7,775	21,112	-	-	7,775	21,112
Employee benefit obligations	2,392	2,488	-	-	2,392	2,488
Provisions and liabilities	40	56	-	-	40	56
Investments in debt portfolios	-	-	(6,974)	(6,984)	(6,974)	(6,984)
Investments in loans	29,328	23,035	-	-	29,328	23,035
Expected future outflows of income from investments in subsidiaries	-	23,259	(168,325)	(172,116)	(168,325)	(148,857)
Deferred tax assets/liabilities	53,969	83,498	(183,486)	(186,657)	(129,517)	(103,159)
Deferred tax assets offset against liabilities	(16,409)	(52,317)	16,409	52,317		
Deferred tax assets/liabilities in the statement of financial position	37,560	31,180	(167,077)	(134,339)	(129,517)	(103,159)

Change in temporary differences in the period

PLN thousand	Net amount of income tax at Jan 1 2021	Change in temporary differences recognised in profit or loss for current period	Net amount of income tax at Dec 31 2021	Net amount of income tax at Jan 1 2020	Change in temporary differences recognised in profit or loss for current period	Net amount of income tax at Dec 31 2020
Property, plant and equipment	(78)	159	81	(396)	319	(78)
Intangible assets	(1,630)	(115)	(1,745)	(4,841)	3,211	(1,630)
Tax losses deductible in future periods	7,967	189	8,155	11,323	(3,357)	7,967
Trade and other receivables	(268)	24	(245)	(122)	(147)	(268)
Borrowings and other debt instruments	21,112	(13,337)	7,775	18,496	2,617	21,112
Employee benefit obligations	2,488	(96)	2,392	2,391	96	2,488
Provisions and liabilities	56	(16)	40	3,656	(3,601)	56
Investments in debt portfolios	(6,984)	10	(6,974)	(7,108)	124	(6,984)
Investments in loans	23,035	6,293	29,328	21,317	1,718	23,035
Expected future outflows of income from investments in subsidiaries	(148,857)	(19,468)	(168,325)	(51,216)	(97,641)	(148,857)
	(103,159)	(26,358)	(129,517)	(6,498)	(96,661)	(103,159)

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 2021 was PLN 2,332,410 thousand (as at December 31st 2020: PLN 1,205,363 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 of (of KRUK S.A. and Erif Bussines Solution) and periods over which they can be utilised:

PLN thousand	**Tax loss expiry date**	**Dec 31 2021**	**Dec 31 2020**
Tax loss for 2018	Dec 31 2023	17,604	29,865
Tax loss for 2019	Dec 31 2024	1,135	1,135
		18,739	31,000
Applicable tax rate		19%	19%
Potential benefit of tax losses		3,560	5,890

Deferred tax assets of PLN 3,560 thousand (2020: PLN 5,890 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

18. Trade and other receivables

Trade receivables

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Short-term trade receivables	22,873	16,804
	22,873	16,804

Other receivables

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Taxes receivable (other than income tax)	15,933	10,803
Receivables under security deposits and bid bonds	9,111	9,396
Receivables under collected debts	9,047	7,380
Other receivables	684	647
Employee loans	272	-
Receivables for court fees and stamp duty	32	131
	35,079	28,357

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

For information on the Group's exposure to credit risk and currency risk as well as allowances for expected credit losses on receivables, see Note 29.

19. Cash and cash equivalents

PLN thousand	Dec 31 2021	Dec 31 2020
Cash in hand	145	190
Cash in current accounts	160,088	145,362
Cash proceeds from bond issues deposited in brokerage account*	38,931	-
	199,164	145,552

** Cash raised from the issue of Series AM1 bonds, credited in the Group's bank account after the reporting date, on January 4th 2022.*

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 thousand	Dec 31 2021	Dec 31 2020
Expenses relating to future reporting periods	9,709	7,964
IT costs amortised over time	5,859	4,896
Insurance	976	669
Development expense	-	204
Other markets	7	103
	16,551	13,836

21. Equity

Share capital

	Ordinary shares	
	2021	**2020**
'000		
Number of shares as at Jan 1	19,011	18,972
Issue of shares	273	39
Cancellation of shares	(271)	-
Number of fully-paid shares at end of period	19,013	19,011
PLN		
Par value per share	1.00	1.00
PLN thousand		
Par value of share capital as at Jan 1	19,011	18,972
Par value as at Dec 31	19,013	19,011

Parent's shareholding structure

As at December 31st 2021, the share capital comprised 19,013 thousand registered shares with voting and dividend rights (December 31st 2020: 18,972 thousand registered shares with voting and dividend rights, and 39 thousand unregistered shares).

As at Dec 31 2021	**Number of shares**	**Par value (PLN thousand)**	**Ownership interest (%)**
Shareholder			
Piotr Krupa	1,771,463	1,771	9.32%
NN PTE[1]	2,802,261	2,802	14.74%
Aviva OFE	1,726,000	1,726	9.08%
PZU OFE	1,650,000	1,650	8.68%
Allianz OFE	1,007,672	1,008	5.30%
Aegon OFE	959,254	959	5.05%
Other members of the Management Board and Supervisory Board	139,020	139	0.73%
Other shareholders	8,957,228	8,957	47.11%
	19,012,898	19,013	100%

As at Dec 31 2020	**Number of shares**	**Par value (PLN thousand)**	**Ownership interest (%)**
Shareholder			
Piotr Krupa	1,827,613	1,828	9.63%
NN PTE[1]	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 and Supervisory Board	133,620	134	0.70%
Other shareholders	9,899,444	9,899	52.18%
	18,971,811	18,972	100.00%
Other shareholders (unregistered shares):	39,234	39	
	19,011,045	19,011	

[1] *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.

Share-based payments

Incentive scheme for 2015−2019

The incentive scheme for 2015-2019 was adopted by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the 2015-2019 Scheme), as amended by Resolution No. 23/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020 to amend Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of Wrocław of May 28th 2014 on setting the rules of an incentive scheme for 2015–2019, conditional increase of the Company's share capital and issue of subscription warrants with the Company shareholders' pre-emptive rights waived in whole with respect to shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association.

It is the second incentive scheme operated by the KRUK Group. 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 members of the Parent's Management Board 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.

In total, 847,950 subscription warrants were offered and delivered to eligible persons throughout the entire duration of the 2015 − 2019 Scheme, i.e. in 2016-2021.

Since, by decision of the shareholders of August 31st 2020, the subscription warrants remaining to be granted under Tranche 5 and not granted to the Eligible Persons in 2020 could be granted until the end of 2021, on June 2nd 2021, the Management Board passed a resolution determining the second list of members of the Management Board eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. The resolution was approved by a resolution of the Supervisory Board of June 4th 2021, and on the basis of the resolution, 32,992 additional subscription warrants were allotted to members of the Management Board.

On June 22nd 2021, the Company's Management Board passed a resolution to determine the third list of persons other than members of the Management Board who were eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. Under the resolution, 9,097 subscription warrants were allotted to the eligible persons.

Tranches under the Incentive Scheme

Tranche		**Number of subscription warrants acquired by members of KRUK's Management Board**	**Number of subscription warrants acquired by other eligible persons**
Tranche 1 for 2015		20,000	86,435
Tranche 2 for 2016		50,480	91,467
Tranche 3 for 2017		54,344	85,853
Tranche 4 for 2018		89,768	115,528
Tranche 5 for 2019		124,588	129,487
	Total	339,180	508,770

Following the amendments to the Commercial Companies Code and the obligation to convert subscription warrants into book-entry form, on February 25th 2021 all subscription warrants issued and outstanding were converted into book-entry form and entered in the securities register maintained by the CSDP.

As at December 31st 2021, 539,682 subscription warrants were converted into Series F shares in the Company. The eligible persons hold 308 268 warrants convertible into Series F shares.

As at December 31st 2021, members of the Management Board of the Parent held no rights to KRUK S.A. shares other than those under the subscription warrants presented below.

Number of subscription warrants held by present and former members of the Management Board as at December 31st 2021

Name and surname	Number of warrants granted in Tranches 1 to 5	Number of warrants held under Tranches 1 to 5
Piotr Krupa	83,942	83,942
Piotr Kowalewski*	22,138	17,138
Adam Łodygowski**	-	-
Urszula Okarma	63,893	63,893
Michał Zasępa	63,893	50,728
Agnieszka Kułton***	56,663	-
Iwona Słomska****	56,663	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.*
***Adam Łodygowski became a member of the Management Board of KRUK S.A. on November 6th 2020.*
**** 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.*

Incentive scheme for 2021−2024

On June 16th 2021, the Annual General Meeting of KRUK S.A. passed a resolution on setting the rules of an incentive scheme for 2021–2024, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association.

For the purposes of the 2021–2024 Incentive Scheme, the General Meeting approved a conditional increase of the Company's share capital by up to PLN 950,550.00, through an issue of up to 950,550 Series H ordinary bearer shares.

Under the 2021−2024 Incentive Scheme, eligible persons will have the right to acquire Series H Company shares on preferential terms set forth in the resolution. Eligible persons are members of the Management Board, including the President of the Management Board, and the Company's employees, as well as members of the management boards and employees of the KRUK Group companies.

Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series H shares at the issue price equal to the turnover-weighted average closing price of Company shares on the Warsaw Stock Exchange from May 15th 2021 to June 15th 2021. Holders of subscription warrants will be entitled to exercise their rights to subscribe for series H shares attached to the subscription warrants not earlier than 24 months after the date on which they acquired the subscription warrants (lock-up for subscription of series H shares by holders of subscription warrants) and not later than on December 31st 2028.

The warrants will be issued in two pools: the basic pool (760,440 subscription warrants) and additional pool (190,110 subscription warrants).

Subscription warrants of the basic pool will be issued in four tranches, one for each of the following years of the reference period, i.e. for the financial years 2021−2024.

Subscription warrants of the additional pool will be issued as a single tranche – Tranche 5, and will be offered in 2025 for 2021–2024.

Subscription warrants of the basic pool for a given financial year will be granted to eligible persons on condition that EPS (calculated on the basis of the Group’s consolidated financial statements) increases by no less than 15.00%. EPS for each financial year (2021, 2022, 2023 and 2024) is calculated as the consolidated net profit for the year per share of the Company. EPS growth for each financial year is calculated as the cumulative annual growth rate relative to 2019 EPS.

The warrants issued as part of the additional pool will be offered on condition that by the end of the Scheme period the absolute return to shareholders (i.e., including dividends paid) over the issue price is at the level provided for in the terms of the Scheme and that the change of KRUK stock price is at least on par with the change of the WIG index over the same period.

Depending on the increase in the absolute return to shareholders, the eligible persons will be offered the following number of subscription warrants issued in the additional pool:

- 50% of the warrants available in the additional pool, if the rate of return over the issue price is at 2x,
- 75% of the warrants available in the additional pool, if the rate of return over the issue price is at 2.25x,
- 100% of the warrants available in the additional pool, if the rate of return over the issue price is at 2.5x.

The subscription warrants are issued free of charge, may be inherited, but may not be encumbered and are not transferable.

Pursuant to the terms of the Scheme, by way of a resolution of July 5th 2021 the Supervisory Board determined the list of persons eligible to participate in the scheme, being members of the Company’s Management Board.

In accordance with the terms of the Scheme, the number of Warrants to be allotted and offered to members of the Management Board throughout the term of the Stock Option Plan shall be 40% of all Warrants.

By way of a resolution of July 15th 2021, the Company's Management Board determined the list of persons who are not members of the Management Board and are eligible to participate in the 2021–2024 Incentive Scheme.

Number of options	**Dec 31 2021**	**Dec 31 2020**
Number of options priced under the 2015−2019 Incentive Scheme at the beginning of the reporting period*:	873,376	837,976
Number of options priced under the 2015−2019 Incentive Scheme during the reporting period*:	42,089	35,400
Number of options priced under the 2015−2019 Incentive Scheme at the end of the reporting period*:	915,465	873,376
Number of options forfeited under the 2015−2019 Incentive Scheme during the reporting period**:	-	11,822
Number of options exercised under the 2015−2019 Incentive Scheme during the reporting period:	272,853	39,234
Number of options exercisable under the 2015−2019 Incentive Scheme at the end of the reporting period:	275,276	327,046
Issue price of options in the 2015−2019 Incentive Scheme	**83.52**	**83.52**

Number of options	**Dec 31 2021**	**Dec 31 2020**
Number of options priced under the 2021−2024 Incentive Scheme at the beginning of the reporting period*:	-	-
Number of options priced under the 2021−2024 Incentive Scheme during the reporting period*:	884,326	-
Number of options priced under the 2021−2024 Incentive Scheme at the end of the reporting period*:	884,326	-
Number of options forfeited under the 2021−2024 Incentive Scheme during the reporting period**:	-	-
Number of options exercised under the 2021−2024 Incentive Scheme during the reporting period:	-	-
Number of options exercisable under the 2021−2024 Incentive Scheme at the end of the reporting period:	-	-
Issue price of options in the 2021−2024 Incentive Scheme	**248.96**	**0.00**

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

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

In 2021, the average share price was PLN 262.27 (2020: PLN 123.08).

As at December 31st 2021 and December 31st 2020, the liability under share-based payment transactions was PLN 0.

Translation reserve

Exchange differences on translating subsidiaries include exchange differences arising from the translation of financial statements of foreign operations in accordance with the policy described in Note 3.3.2.

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
InvestCapital Ltd.	(13,992)	86,460
SeCapital S.à r.l.	7,794	22,043
KRUK Italia	503	1,237
Kruk Deutschland GmbH	(69)	1,524
KRUK Espana S.L.	(1,275)	3,311
KRUK Romania S.r.l.	1,217	1,073
ItaCapital S.r.l	1,056	(10,790)
KRUK Česká a Slovenská republika s.r.o.	1,031	4,340
ProsperoCapital S.à r.l.	(1,210)	1,186
Other markets	(688)	1,195
	(5,633)	111,579

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 2021, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 694,758 thousand (2020: PLN 81,356 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,966 thousand (2020: 18,977 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Net profit for period	694,903	80,998
Non-controlling interests	(145)	358
Net profit attributable to ordinary shareholders of the Parent	694,758	81,356

Weighted average number of ordinary shares

'000	***Note***	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Number of ordinary shares as at Jan 1	*21*	19,011	18,972
Effect of cancellation and issue		(45)	5
Weighted average number of ordinary shares in the period ended Dec 31		18,966	18,977
PLN			
Earnings per share		36.63	4.29

Dividend per share paid

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Dividend paid from profit and retained earnings	206,140	-
PLN		
Dividend per share	11.00	0.00

Diluted earnings per share

As at December 31st 2021, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 694,758 thousand (2020: PLN 81,356 thousand) and the weighted average number of shares in the period covered by the financial statements of 19,407 thousand (2020: 19,259 thousand). The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	**Dec 31 2021**	**Dec 31 2020**
Weighted average number of ordinary shares in the period ended Dec 31	18,966	18,977
Effect of issue of unregistered shares not subscribed for	441	283
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)	19,407	19,259
PLN		
Earnings per share (diluted)	35.80	4.22

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 thousand

	Dec 31 2021	Dec 31 2020
Non-current liabilities		
Secured borrowings	1,409,351	752,587
Liabilities under debt securities (unsecured)	833,032	769,933
Lease liabilities	41,247	63,379
	2,283,629	1,585,898
Current liabilities		
Secured borrowings	86,551	76,751
Liabilities under debt securities (unsecured)	471,727	544,314
Lease liabilities	27,113	15,213
	585,391	636,278

Realized and unrealized exchange rate differences affecting the financial liabilities were PLN 2,497 thousand in 2021 and PLN -18,358 thousand in 2020.

Change in financial liabilities

PLN thousand

	At the 31.12.2021	Proceeds	Repayment	Finance costs	Interests paid	(Gain)/loss on sale of property, plant and equipment	At the 31.12.2020
Borrowings secured over the Group's assets	1,495,902	1,894,838	(1,228,490)	38,300	(38,084)		829,338
Liabilities under debt securities (unsecured)	1,304,759	535,000	(540,000)	51,049	(55,537)		1,314,247
Lease liabilities	68,360	18,091	(25,718)	1,766	(2,240)	(2,131)	78,592
	2,869,021	2,447,929	(1,794,208)	91,115	(95,861)	(2,131)	2,222,177

Terms and repayment schedule of borrowings, debt securities and leases

PLN thousand	Currency	Nominal interest rate	Maturity periods [1]	Dec 31 2021	Dec 31 2020
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + 1.0-2.95 p.p.; 3M WIBOR + 2.0 pp; 1M EURIBOR + 2.2-2.95 p.p.;	2022-2026	1,495,902	829,338
Liabilities under debt securities (unsecured)	PLN EUR	3M WIBOR + 3.25-4.0 pp. 4.00%–4.80%[2] 3.59%	2022-2027	1,304,759	1,314,247
Lease liabilities	EUR/PLN CZK	3M WIBOR or 1M EURIBOR + 0.8-9.7 pp.; 3.00–4.40%	2022-2030	68,360	78,592
				2,869,021	2,222,177

[1] *Maturity of the last liability*
[2] *fixed interest rate*

Repayment schedule for finance lease liabilities

PLN thousand

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at Dec 31 2021			
up to 1 year	26,387	1,158	25,229
from 1 to 5 years	36,650	1,517	35,133
	63,037	2,675	60,362
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

Security over assets

PLN thousand	Dec 31 2021	Dec 31 2020
Registered pledge over purchased debt portfolios, with assignment of claims, financed with a credit facility, registered pledge over shares in Secapital S.r.l., registered pledge over investment certificates of Prokura NS FIZ, registered pledge over bonds of Itacapital S.rl	3,162,944	2,641,605
Property, plant and equipment used under lease contracts	16,148	6,398
	3,179,092	2,648,003

A claim secured by a registered pledge and not repaid shall be satisfied from the pledged assets in priority to other claims, unless such other claims have priority under special regulations.
Satisfaction of the pledgee from the registered pledge takes place on the basis of the enforcement procedure provided for in the Code of Civil Procedure.

For a description of the security created, see Note 34.

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).

As at December 31, 2021, the companies from the Kruk Group did not have open, unsettled CIRS contracts.

Open outstanding CIRS contracts held by KRUK Group companies as at December 31st 2020:

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	100.000.000,00 PLN	buy	3.06%	3.1% + 3M WIBOR	January 9th 2017 to June 4th 2021
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	90.000.000,00 PLN	buy	2.97%	3.0% + 3M WIBOR	January 13th 2017 to November 10th 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 2021 and December 31st 2020, with a total volume of PLN 530,000 thousand:

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.	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 115,000,000.00	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

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 and 2021, the Group took steps to hedge currency risk arising from the translation of net assets in a foreign entity; the hedging transactions were executed by subsidiaries. It is the Group's objective to mitigate the effect of exchange differences arising on consolidation of foreign subsidiaries on the consolidated financial statements. Transactions entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

Transaction date	Settlement date	Amount in EUR	Value in PLN:
Feb 28 2019	Mar 29 2019	- 65,000,000	280,325,500
Mar 29 2019	2019-04-30	- 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
Aug 31 2021	Sep 30 2021	- 8,000,000	36,180,800
Aug 31 2021	Sep 30 2021	- 14,000,000	63,316,400
Sep 30 2021	Oct 31 2021	- 8,000,000	37,062,000
Sep 30 2021	Oct 31 2021	- 14,000,000	64,858,500
Oct 10 2021	Nov 30 2021	- 22,000,000	101,706,000
Nov 30 2021	Dec 31 2021	- 32,000,000	149,580,800

As at December 31st 2021, 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 the 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 material impact on hedging relationships in hedge accounting.

The Group takes measures to ensure that it is prepared for a possible change in the benchmarks underlying the concluded hedging instruments in the event the WIBOR 3M rate ceases to be published. In particular, the Group continuously monitors regulatory changes in benchmarks and negotiates amendments to the Master

Agreements governing the hedging instruments, in order to prepare optimal procedures for transition to an alternative benchmark if necessary.

Although the Polish Financial Supervision Authority has deemed the process of compiling the WIBOR benchmark to be in compliance with the requirements imposed under European Union law and issued a permit authorising WSE Benchmark SA to operate as an administrator of interest rate benchmarks, in the opinion of the Group there is uncertainty related to potential further changes to the method of determining the WIBOR benchmark. Therefore, the Group does not exclude the possibility that the hedging instruments entered into may need to be appropriately adjusted, in particular if the 3M WIBOR rate is permanently discontinued.

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

Amounts related to open position designated as hedging instruments

PLN thousand

	Carrying amount/fair value of hedging instruments									
	Dec 31 2021				Dec 31 2020					
	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	13,803	-	530,000 (PLN)	32,189	-	18,386	530,000 (PLN)	14,861	Hedging instruments	Cash flow hedges
	13,803	**-**		**32,189**	**-**	**18,386**		**14,861**		

PLN thousand

	Amount of future cash flows as at Dec 31 2021				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	(203,479)	(77,672)	(69,721)	(191,613)	-
floating payment PLN	203,479	77,672	69,721	191,613	-

	Amount of future cash flows 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	(4,121)	(5,183)	(281,855)	(260,714)	-
floating payment PLN	4,121	5,183	281,855	260,714	-

PLN thousand

	Disclosure of the hedged item as at Dec 31 2021			
	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	32,189	13,803	-
Hedging of a net investment in a foreign operation (currency risk)	-	-	-	4,082

PLN thousand

	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	14,861	(18,386)	-
Hedging of a net investment in a foreign operation (currency risk)	-	-	-	3,603

PLN thousand	Jan 1–Dec 31 2021		
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	(18,386)	3,603	(14,783)
Measurement of instruments charged to capital reserves	41,368	479	41,846
Amount reclassified to profit or loss during the period	(9,179)	-	(9,179)
- Interest income / (expense)	(9,179)	-	(9,179)
- Reclassification of exchange differences	-	-	-
- Ineffective portion of hedge	-	-	-
Hedge reserve at end of the period	13,803	4,082	17,885

	Jan 1–Dec 31 2020		
Cash flow hedge reserve	**Future cash flow hedges**	**Hedge of investments in net assets**	**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 / (expense)	(4,422)	-	(4,422)
- Ineffective portion of hedge	-	-	-
Hedge reserve at end of the period	(18,386)	3,603	(14,783)

26. Employee benefit obligations and provisions

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Salaries and wages payable	19,653	18,314
Social benefit obligations	17,007	13,771
Accrued holiday entitlements	7,127	7,271
Personal income tax	4,239	3,307
Special accounts	635	197
	48,661	42,860

Changes in accrued employee benefits

Changes in provisions for accrued holiday entitlements	
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
Carrying amount as at Jan 1 2021	7,271
Increase	6,756
Use	(6,900)
Release	-
Carrying amount as at Dec 31 2021	7,127

27. Trade and other payables

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Trade payables	122,587	72,620
Other liabilities	15,617	18,558
Accrued expenses	9,695	9,760
Deferred income	7,125	5,336
Tax and duties payable	7,962	5,953
	162,986	112,227

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

28. Provisions

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Provisions for retirement gratuity payments	16,433	13,463
Provision for the loyalty scheme	11,750	10,652
Other provisions	14,876	29,008
	43,060	53,124

Changes in provisions

	Provisions for retirement gratuity payments	Provision for the loyalty scheme	Other provisions
Carrying amount as at Jan 1 2020	10,196	6,825	7,156
Increase / accrued	3,267	4,720	
Provision for possible differences relative to straight-line basis settlement			21,852
Use	-	(894)	
Reversal of provision for possible differences relative to straight-line basis settlement			-
Carrying amount as at Dec 31 2020	13,463	10,652	29,008
Carrying amount as at Jan 1 2021	13,463	10,652	29,008
Increase / accrued	2,970	1,779	5,517
Provision for possible differences relative to straight-line basis settlement			
Use	-	(681)	
Reversal of provision for possible differences relative to straight-line basis settlement			(19,649)
Carrying amount as at Dec 31 2021	16,433	11,750	14,876

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.

In connection with the published decisions of the Office of Competition and Consumer Protection and its position on the straight-line method of fee refunds, the Group has re-estimated the level provisions for the difference between the applied refund method and the straight-line method. The provision reflects the Group's estimate of the probability of an outflow of funds. Since September 18th 2020, the Group has applied the 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.

The risk of credit concentration is defined by the Group as the risk of significant exposure to individual entities or indebted persons whose ability to repay debt depends on a common risk factor. The Group analyses the concentration risk with respect to:

- indebted persons as part of its investments in debt portfolios;
- borrowers under loans advanced;
- business partners;
- geographical regions.

Loans

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 5% (2020: 6%) the Group's debt collection revenue. Receivables from the Group's largest trading partner represented 2.7% of total trade receivables as at December 31st 2021 (December 31st 2020: 7.7%). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises allowances for expected credit 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.

Credit risk exposure

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 thousand	*Note*	Dec 31 2021	Dec 31 2020
Investments in debt portfolios	*15*	5,100,176	3,984,080
Loans	*15*	316,336	224,644
Hedging instruments	*25*	13,803	-
Trade and other receivables, net of tax receivable	*18*	42,019	34,358
Cash and cash equivalents	*19*	199,164	145,552
		5,671,498	4,388,634

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

PLN thousand	Dec 31 2021	Dec 31 2020
Poland	3,090,465	2,137,758
Romania	914,952	919,691
Italy	1,037,858	787,742
Spain	427,422	370,986
Other foreign markets	200,801	172,457
	5,671,498	4,388,634

Credit risk exposure – Investments in debt portfolios

PLN thousand	Carrying amount as at Dec 31 2021	Carrying amount as at Dec 31 2020
Unsecured retail portfolios	4,159,327	3,232,990
Secured retail portfolios.	308,875	220,229
Unsecured corporate portfolios	185,638	52,241
Secured corporate portfolios.	446,336	478,620
	5,100,176	3,984,080

Credit risk exposure – Loans

PLN thousand	Carrying amount as at Dec 31 2021				
Risk classification	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**	**TOTAL**
Gross carrying amount of loans measured at amortised cost					
low	148,203	52,092	11,465	-	211,760
medium	16,821	5,847	1,801	-	24,469
high	2,548	1,172	466	-	4,186
not classified	37,492	6,111	82,502	1,866	127,971
	205,064	65,222	96,234	1,866	368,386
Allowance for expected credit losses					
low	4,282	4,836	7,682	-	16,800
medium	916	1,080	1,165	-	3,161
high	220	294	278	-	792
not classified	4,239	1,328	62,852		68,419
	9,657	7,538	71,977	-	89,172
Net carrying amount					
low	143,921	47,256	3,783	-	194,960
medium	15,905	4,767	636	-	21,308
high	2,328	878	188	-	3,394
not classified	33,253	4,783	19,650	1,866	59,552
	195,406	57,684	24,257	1,866	279,213

The classification criterion for individual risk groups is the delay in payment of principal instalments:

- low-risk loans – the share of loans with delayed principal payments is 5%,
- medium-risk loans – the share of loans with delayed principal payments is 10%,
- high-risk loans - the share of loans with delayed principal payments is around 20%.

Credit risk exposure – Cash

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Cash in accounts with banks rated below BBB – by Standard & Poor's*	30,812	31,637
Cash in accounts with banks rated BBB or higher – by Standard & Poor's*	168,352	113,915
	199,164	145,552

** Alternatively BBB- by Fitch Ratings Ltd or Baa3 by Moody's Investors Service Limited*

Allowance for expected credit losses

The table below presents breakdown of trade and other receivables other than tax receivables into baskets as at the end of the reporting periods.

IFRS 9 classification

	Days past due Basket 1: <1 days Basket 2: 1-90 days Basket 3: >90 days	**Expected credit losses as a% of the gross carrying amount**	**Carrying amount as at Dec 31 2021**	**Carrying amount as at Dec 31 2020**
Gross carrying amount of trade and other receivables other than tax receivables				
	Basket 1		42,019	34,111
	Basket 2		169	446
	Basket 3		1,613	1,613
			43,801	36,170
Allowance for expected credit losses				
	Basket 1	0%	-	-
	Basket 2	0,7%	169	446
	Basket 3	100%	1,613	1,366
			1,782	1,812
Net carrying amount				
	Basket 1		42,019	34,111
	Basket 2		-	-
	Basket 3		-	247
			42,019	34,358

Changes in allowances for expected credit losses on receivables are presented below.

PLN thousand

	Jan 1–Dec 31 2021				**Jan 1–Dec 31 2020**			
	Basket 1	**Basket 2**	**Basket 3**	**TOTAL**	**Basket 1**	**Basket 2**	**Basket 3**	**TOTAL**
Loss allowance as at Jan 1	-	446	1,366	1,812	-	1,675	-	1,675
Loss allowance recognised in the period	-	82	247	329	-	51	364	415
Reversal of loss allowance	-	(359)	-	(359)	-	(278)	-	(278)
Use of loss allowance	-	-	-	-	-	-	-	-
Transfer between baskets	-	-	-	-	-	(1,002)	1,002	-
Loss allowance at end of the period	**-**	**169**	**1,613**	**1,782**	**-**	**446**	**1,366**	**1,812**

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:

PLN thousand	Jan 1–Dec 31 2021 Basket 1	Basket 2	Basket 3	POCI loans	TOTAL	Jan 1–Dec 31 2020 Basket 1	Basket 2	Basket 3	POCI loans	TOTAL
Gross carrying amount as at Jan 1	111,891	27,677	84,098	1,092	224,758	186,183	34,789	52,556	2,408	275,937
Disbursements/repayments	146,449	17,502	(21,097)	774	143,628	(25,135)	(9,936)	(14,791)	(1,316)	(51,178)
Transfer from basket 1 to basket 2	(51,590)	51,590	-	-	-	(21,673)	21,673	-	-	-
Transfer from basket 1 to basket 3	(15,094)	-	15,094	-	-	(30,478)	-	30,478	-	-
Transfer from basket 2 to basket 1	13,408	(13,408)	-	-	-	2,824	(2,824)	-	-	-
Transfer from basket 2 to basket 3	-	(18,139)	18,139	-	-	-	(16,039)	16,039	-	-
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	**205,064**	**65,222**	**96,234**	**1,866**	**368,386**	**111,891**	**27,677**	**84,098**	**1,092**	**224,759**

Changes in the allowances for expected credit losses on loans measured at amortised cost are presented below.

PLN thousand	Jan 1–Dec 31 2021 Basket 1	Basket 2	Basket 3	TOTAL	Jan 1–Dec 31 2020 Basket 1	Basket 2	Basket 3	TOTAL
Loss allowance as at Jan 1	11,330	4,082	56,681	72,093	21,298	6,730	33,293	61,320
Allowance for expected credit losses recognised in the reporting period	13,952	10,975	-	24,927	12,205	5,226	-	17,431
Transfer from basket 1 to basket 2	(5,855)	5,855	-	-	(3,118)	3,118	-	-
Transfer from basket 1 to basket 3	(10,212)	-	10,212	-	(18,829)	-	18,829	-
Transfer from basket 2 to basket 1	442	(442)	-	-	(256)	256	-	-
Transfer from basket 2 to basket 3	-	(12,932)	12,932	-	-	(11,258)	11,258	-
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	-	-	(7,848)	(7,848)	-	-	(6,658)	(6,658)
Loss allowance at end of the period	**9,657**	**7,538**	**71,977**	**89,172**	**11,330**	**4,082**	**56,681**	**72,093**

As at December 31st 2021, the gross carrying amount of loans measured at amortised cost was PLN 368,386 thousand (December 31st 2020: PLN 224,759 thousand). The Group recognised an allowance for expected credit losses on loans of PLN 89,172 thousand as at December 31st 2021 (December 31st 2020: PLN 72,093 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 24.2% of the gross carrying amount of loans measured at amortised cost (at the end of 2020: 32.1%). The total amount of undiscounted expected credit losses on impaired financial assets due to credit risk was PLN 20,452 thousand in 2021 (2020: PLN 13,677 thousand).

For information on changes in allowances for expected credit 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.

Liquidity risk exposure

As at Dec 31 2020
PLN thousand

	Carrying amount	Contractual/estimated 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	-
Trade and other receivables, net of tax receivable	34,358	34,358	34,358	-	-	-	-
Cash and cash equivalents	145,552	145,552	145,552	-	-	-	-
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	(91,178)	(91,178)	(91,178)	-	-	-	-
	2,075,279	6,122,051	602,592	665,634	962,366	1,603,104	2,288,355

As at Dec 31 2021
PLN thousand

	Carrying amount	Contractual/estimated 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	5,100,176	9,989,010	948,765	865,115	1,579,581	3,186,596	3,408,953
Loans	316,336	402,742	164,602	93,627	105,605	38,908	-
Trade and other receivables, net of tax receivable	42,019	42,019	42,019	-	-	-	-
Cash and cash equivalents	199,164	199,164	199,164	-	-	-	-
Secured borrowings	(1,495,902)	(1,715,760)	(127,423)	(47,461)	(167,312)	(1,373,564)	-
Unsecured bonds in issue	(1,304,759)	(1,528,742)	(427,331)	(101,969)	(114,327)	(527,527)	(357,588)
Lease liabilities	(68,360)	(63,037)	(12,886)	(13,501)	(21,814)	(13,609)	(1,227)
Trade and other payables	(138,204)	(138,204)	(138,204)	-	-	-	-
	2,650,470	7,187,193	648,706	795,812	1,381,732	1,310,804	3,050,139

Contractual cash flows were determined based on interest rates effective as at December 31st 2021 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 2021, the undrawn revolving credit facility limit available to the Group was PLN 794,887 thousand (2020: PLN 1,045,684 thousand). The limit is available until December 20th 2027.

For information on liquidity risk of hedging instruments, see Note 25.

The liquidity concentration risk is defined by the Group as the risk arising 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 2021, financial assets denominated in foreign currencies accounted for 44% of total assets, while liabilities denominated in foreign currencies represented 15% of total equity and liabilities (December 31st 2020: 49% and 19%, respectively).
The Group uses financial instruments to hedge its interest rate risk and currency risk (see Notes 3.4.5 and 25).

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 thousand	Dec 31 2021					Dec 31 2020				
	Currency risk exposure									
	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	Total
Trade and other receivables	-	1,392	226	-	**1,618**	4	1,450	3,989	-	**5,443**
Investments	-	310	780,398	21,680	**802,388**	-	39,789	710,176	26,234	**776,198**
Cash	694	7,679	10,511	661	**19,545**	525	2,706	14,946	1,423	**19,600**
Borrowings, debt securities and leases	-	(192,572)	-	-	**(192,572)**	-	(231,245)	-	-	**(231,245)**
Trade and other payables	(310)	(13,361)	(2,293)	-	**(15,964)**	(36)	(23,754)	(1,969)	(82)	**(25,841)**
Currency risk exposure – items affecting profit or loss	384	(196,552)	788,842	22,341	**615,015**	494	(211,054)	727,142	27,575	**544,156**
Trade and other receivables	-	17,460	16,153	-	**33,613**	-	37,806	13,498	10	**51,315**
Investments	-	1,413,091	112,484	115,930	**1,641,505**	-	1,124,579	181,720	35,192	**1,341,490**
Cash	-	61,719	21,571	8,217	**91,507**	-	62,379	28,279	4,876	**95,533**
Borrowings, debt securities and leases	-	(575,655)	(3,912)	(1,344)	**(580,911)**	-	(548,950)	(15,269)	(1,525)	**(565,745)**
Trade and other payables	-	(84,885)	(16,386)	(3,251)	**(104,522)**	-	(40,574)	(12,880)	(1,892)	**(55,346)**
Currency risk exposure – items affecting other comprehensive income	-	831,730	129,911	119,552	**1,081,192**	-	635,239	195,348	36,661	**867,247**
Currency risk exposure	384	635,178	918,752	141,893	**1,696,207**	494	424,184	922,489	64,235	**1,411,403**
Currency risk exposure after hedging	384	635,178	918,752	141,893	**1,696,207**	494	424,184	922,489	64,235	**1,411,403**

PLN thousand

	Dec 31 2021					Dec 31 2020				
	Analysis of sensitivity of currency risk exposure to +10% increase in exchange rates									
	PLN	**EUR**	**RON**	**CZK**	**TOTAL**	**PLN**	**EUR**	**RON**	**CZK**	**Total**
Trade and other receivables	-	139	23	-	**162**	-	145	399	-	**544**
Investments	-	31	78,040	2,168	**80,239**	-	3,979	71,018	2,623	**77,620**
Cash	69	768	1,051	66	**1,954**	52	271	1,495	142	**1,960**
Borrowings, debt securities and leases	-	(19,257)	-	-	**(19,257)**	-	(23,124)	-	-	**(23,124)**
Trade and other payables	(31)	(1,336)	(229)	-	**(1,596)**	(4)	(2,375)	(197)	(8)	**(2,584)**
Effect on statement of profit or loss	38	(19,655)	78,885	2,234	**61,502**	48	(21,104)	72,715	2,757	**54,416**
Trade and other receivables	-	1,746	1,615	-	**3,361**	-	3,781	1,350	1	**5,132**
Investments	-	141,309	11,248	11,593	**164,150**	-	112,458	18,172	3,519	**134,149**
Cash	-	6,172	2,157	822	**9,151**	-	6,238	2,828	488	**9,554**
Borrowings, debt securities and leases	-	(57,566)	(391)	(134)	**(58,091)**	-	(54,895)	(1,527)	(153)	**(56,575)**
Trade and other payables	-	(8,489)	(1,639)	(325)	**(10,453)**	-	(4,057)	(1,288)	(189)	**(5,534)**
Effect on other comprehensive income	-	83,172	12,990	11,956	**108,118**	-	63,525	19,535	3,666	**86,726**
Currency risk exposure	38	63,518	91,875	14,189	169,620	49	42,418	92,249	6,424	**141,140**
Currency risk exposure after hedging	38	63,518	91,875	14,189	**169,620**	49	42,418	92,249	6,424	**141,140**

As at December 31st 2021, a 10% depreciation of the Polish currency against the euro would result in a PLN 19,655 thousand decrease in profit and a PLN 63,518 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 Group as the risk arising from significant exposure to individual financial instruments denominated in RON, CZK, and 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 2021	**Jan 1–Dec 31 2020**	**Dec 31 2021**	**Dec 31 2020**
1 EUR	4.5775	4.4742	4.5994	4.6148
1 USD	3.8757	3.9045	4.0600	3.7584
1 RON	0.9293	0.9239	0.9293	0.9479
1 CZK	0.1785	0.1687	0.1850	0.1753

Interest rate risk exposure

The structure of interest-bearing financial instruments at the end of the reporting period is presented below.

PLN thousand	**Carrying amount**	
	Dec 31 2021	**Dec 31 2020**
Fixed-rate financial instruments		
Financial assets*	5,671,498	4,388,634
Financial liabilities	(503,476)	(303,463)
	5,168,022	4,085,171
Hedge effect (nominal amount)	(530,000)	(530,000)
	4,638,022	3,555,171
Variable-rate financial instruments		
Financial assets*	-	-
Financial liabilities	(2,503,748)	(2,009,891)
	(2,503,748)	(2,009,891)
Hedge effect (nominal amount)	530,000	530,000
	(1,973,748)	(1,479,891)

**Investments, trade and other receivables*

Interest rate concentration risk is defined by the Group as the risk arising from significant 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 thousand

	Profit or loss for the current period	
	increase by 100 bps	**decrease by 100 bps**
Dec 31 2021		
Variable rate financial assets	-	-
Variable rate financial liabilities	(25,037)	25,037
Dec 31 2020		
Variable rate financial assets	-	-
Variable rate financial liabilities	(20,099)	20,099

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 thousand	**Dec 31 2021**		**Dec 31 2020**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Derivatives	-	-	(11,236)	(11,236)
Hedging instruments	13,803	13,803	(18,386)	(18,386)
Loans	37,123	37,123	71,978	71,978
	50,926	50,926	42,356	42,356

Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	5,100,176	4,835,016	3,984,080	3,962,354
Loans	279,213	270,034	152,666	140,755
Secured borrowings	(1,495,902)	(1,502,198)	(829,338)	(830,663)
Liabilities under debt securities (unsecured)	(1,304,759)	(1,318,243)	(1,314,247)	(1,319,748)
	2,578,728	2,284,609	1,993,161	1,952,698

For information on fair value measurement, see Note 3.4.

The increase in the difference between the fair value measurement and the carrying amount resulting in the fair value being lower than the carrying amount is primarily due to a change in the risk-free interest rate, i.e., one of the objective factors in the fair value measurement model. The tightening of monetary policy by the central banks of Poland, Romania, the Czech Republic, and the eurozone resulted in a sharp increase in 3Y IRS rates used by the KRUK Group as the risk-free rate, which is an element of the discount rate applied to its debt portfolios. Compared with the end of 2020, the rate increased by 3.56 p.p. in Poland, 2.29 p.p. in Romania, 3.38 p.p. in the Czech Republic, and 0.36 p.p. in the eurozone. The higher discount rates of the portfolios translate into larger discount factors and, consequently, lower valuation of the portfolios.

Interest rates used for fair value estimation

	Dec 31 2021	**Dec 31 2020**
Investments in debt portfolios	-0.01%–216.23%	0.00%–113.64%
Loans	14.64%–88.69%	9.13%–86.22%
Secured borrowings	4.65%–5.04%	0.20%–4.16%
Liabilities under debt securities (unsecured)	3.59%–5.94%	3.21%–4.80%

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 2020−2021, no transfers were made between the levels.

The Group does not identify Level 1 assets.

Hierarchy of financial instruments – Level 2

PLN thousand	Level 2	
	Carrying amount	**Fair value**
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)
As at Dec 31 2021		
Derivatives	-	-
Hedging instruments	13,803	13,803
Secured borrowings	(1,495,902)	(1,502,198)
Liabilities under debt securities (unsecured)	(1,304,759)	(1,318,243)

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 based on the difference between the margin applicable to the financial liabilities as at the reporting date and the margin as at the transaction date. To determine the fair value, the Group takes margins under the most recent credit facility agreement or debt securities issue.

Hierarchy of financial instruments – Level 3

PLN thousand	Level 3	
	Carrying amount	**Fair value**
As at Dec 31 2020		
Investments in debt portfolios	3,984,080	3,962,354
Loans	224,644	212,733
As at Dec 31 2021		
Investments in debt portfolios	5,100,176	4,835,016
Loans	316,336	307,157

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 ERC 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 2021, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 36.45% (2020: 4.15%)
The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and leases to total equity, was 1.10 as at December 31st 2021 (December 31st 2020: 1.09)
In the reporting period from January 1st to December 31st 2021, 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 thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Base pay/ managerial contract (gross)	6,313	6,231
Additional benefits	83	109
Share based payments	18,576	4,382
	24,972	10,722

Remuneration of the Management Board for 2020 includes severance payments.

Remuneration of members of the Supervisory Board

Remuneration of members of the Parent's Supervisory Board was is presented below.

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Base pay (gross)	956	873
Additional benefits	15	15
	971	888

Other transactions with management personnel

As at December 31st 2021, members of the Management Board and persons closely related to them jointly held 10.0% of the total voting rights at the Parent's General Meeting (December 31st 2020: 10.3%).

In 2021 and 2020, 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 thousand

	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)
Dec 31 2021	18,576
Total	82,000

The management stock option plans are described in Note 21.

32. Auditor's fees

Auditor's fees are presented below:

PLN thousand, net	**Dec 31 2021**	**Dec 31 2020**
Audit of financial statements	1,867	1,832
Other assurance services, including review of financial statements	270	352
	2,137	2,184

33. Other notes

33.1. Notes to the consolidated statement of cash flows

The table below presents the reasons for differences between changes in certain items of the consolidated statement of financial position and the consolidated statement of profit or loss and changes resulting from the separate statement of cash flows.

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Change in trade and other receivables in the statement of financial position	(12,791)	10,679
In come tax receivables	-	(5,889)
Change in trade and other receivables in the statement of cash flows	(12,791)	4,790

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Change in investments in debt portfolios in the statement of financial position	(1,116,096)	212,741
Effect of exchange differences on translating foreign operations	(10,172)	113,872
Change in investments in debt portfolios in the statement of cash flows	(1,126,268)	326,614

34. Contingent liabilities

Security created over the Group's assets as at December 31st 2021 is presented below.

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for PROKURA NS FIZ's liabilities under the revolving credit facility of July 2nd 2015, as amended, between PROKURA NS FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 126,000 thousand	No later than July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the revolving credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	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 54,900 thousand (applies to InvestCapital LTD and KRUK S.A.)	No later than July 31st 2027	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 Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 292 thousand and PLN 204 thousand	No later than December 30th 2022	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 agreement of December 20th 2018, as amended, between PROKURA NS FIZ, KRUK S.A. and ING Bank Śląski S.A.	ING Bank Śląski S.A.	PLN 300,000 thousand	No later than December 20th 2029	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

Type	Beneficiary	Amount	Expiry date	Terms and conditions
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., Santander Bank Polska S.A. and PKO BP S.A. and Bank Handlowy w Warszawie S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	EUR 447,000 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	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 PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of September 21st 2021, as amended, between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 42,408 thousand	No later than September 20th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of December 14th 2021, as amended, between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 85,800 thousand	No later than December 13th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement

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

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 210,000 thousand	No later than 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 162,398 thousand	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 162,398 thousand (applies to InvestCapital LTD and KRUK S.A.)	No later than 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 Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 291 thousand and PLN 197 thousand	No later than 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 240,000 thousand	No later than December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

Type	Beneficiary	Amount	Expiry date	Terms and conditions
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 390,000 thousand	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 7,500 thousand	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 15,300 thousand	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.

35. Events subsequent to the reporting date

- On January 19th 2022, the Management Board of KRUK S.A. passed a resolution to issue AM2 Series bonds and define the final terms and conditions of the bonds. The bonds were offered as part of the Eight Bond Issue Programme in a public offering, at an issue price equal to the nominal value of PLN 100. On February 8th 2022, 500,000 unsecured bonds with a total value of PLN 50,000 thousand were issued.

- On January 21st 2022, the Management Board of KRUK S.A. passed a resolution to issue AL2 Series bonds and define the final terms and conditions of the bonds. The bonds were offered at an issue price equal to the nominal value of PLN 1,000. On February 2nd 2022, 350,000 unsecured bonds with a total value of PLN 350,000 thousand were issued.

- On January 31st 2022, KRUK TECH s.r.l. of Bucharest was registered. The company's shareholders are: KRUK S.A., holding 99% of shares and KRUK Romania s.r.l., holding 1% of shares. The principal business activity of the company is the provision of IT services and software development.

- On February 1st 2022, KRUK Group companies executed credit facility agreements for PLN 80,000 thousand and PLN 40,000 thousand, maturing on December 31st 2028.

- Subsequent to the reporting date, Russia’s aggression against Ukraine started on February 24th 2022. The KRUK Group does not hold any assets in Ukraine or Russia, nor does it carry out any business activity in those countries. A Ukrainian company is one of the suppliers of IT development services to Wonga, a subsidiary. Given the circumstances, the cooperation with the Ukrainian supplier is continued to a limited extent. This does not affect Wonga's ongoing operations, and it is possible to source the services in Poland.
  With no operations conducted in Ukraine or Russia, the Company expects the implications of the conflict for the Group’s operations will be indirect and limited. Provided below is an assessment of the possible impact of the conflict in Ukraine on selected areas of operations.

Recoveries from purchased debt portfolios

The Company has not seen any changes in customers’ repayment behaviour after the conflict started. Although prices in Poland and Romania are rising, there has been a strong increase in wages and salaries and the unemployment rate is stable, therefore the Company does not expect the trend in recoveries to deteriorate.

Investments in debt portfolios

So far, the Company has not seen any impact of the conflict on either portfolio supply or portfolio prices.

Access to debt financing

The Company expects to face temporary difficulties in placing bonds on the Polish market. The Company does not consider this to be a serious impediment given the PLN 400m worth of bonds issued in the first two months of 2022 and the plan to increase the amount of credit available under bank loans.

Liquidity management

The Company believes the current situation in Ukraine does not and should not have a material adverse effect on the following areas of the Company's operations:

1) meeting the required financial covenants – currently the covenants are at safe levels, far lower than the thresholds set in relevant credit agreements and bond terms.
   Furthermore, when calculating most of the financial ratios the effect of exchange differences is neutralised.
   The Company anticipates potential minor short-term fluctuations in the net debt/cash EBITDA ratio as different EUR/PLN exchange rates are used to calculate the numerator (net debt in PLN is calculated using the mid exchange rate for a given day) and the denominator (EBITDA in PLN is calculated using the average exchange rate for the last 12 months), but the impact of the fluctuations should not be significant.

2) Liquidity position – the Group maintains its liquidity ratios at safe levels and considers the safety of its liquidity position to be high, therefore an increase in financing costs or EUR/PLN exchange rates has no material impact on the Group's liquidity. Another factor reducing the Group's exposure to fluctuations in foreign exchange rates and the WIBOR rate is the fact that the Group funds investments in EUR-denominated assets from bank loans in EUR and own funds in EUR. Also, the Group's WIBOR-sensitive debt represents only 52% of total debt (as at December 31st 2021), as part of the debt bears interest at fixed or EURIBOR rates or is hedged under IRS.

Loans advanced

As the war in Ukraine is pushing up prices of energy carriers and causing a strong depreciation of the złoty, further interest rate hikes are expected. The consequences for households would be rising costs of living including the cost of servicing existing loans.

We have identified the risk that the quality of Wonga's loan portfolio may deteriorate due to borrowers' lack of liquidity. Wonga has carried out creditworthiness assessments as part of its lending process since 2019. Approximately 90% of loans are made to customers with the highest credit score, therefore the aforementioned risk is marginal. The recorded delays in payments have been stable, also in the months following the implemented interest rate hikes.

Digital security

All systems are running smoothly and are subject to routine and, given the current situation, enhanced testing and safeguards. The Group has undertaken a number of digital security measures:

1. Business relationship has been established with CERT.PL, which specialises in computer security, and CERT recommendations issued in connection with the conflict have been implemented,
2. Special level of protection has been provided for backup copies of our critical systems,
3. Steps have been taken to establish a permanent relationship with an external Security Operations Centre.

The situation in Ukraine does not affect the financial statements as at the reporting date or the recognition and measurement of individual items of the statements after the reporting date.

- On March 4th 2022, the Management Board of the Parent passed a resolution recommending that the Annual General Meeting approves dividend of PLN 13 per share. The dividend would be distributed from the Parent's net profit earned in 2021. The dividend recommendation is consistent with the dividend policy adopted by the Management Board on December 2nd 2021.

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 Board

Urszula Okarma
Member of the Management Board

Michał Zasępa
Member of the Management Board

Adam Łodygowski
Member of the Management Board

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Person keeping the accounting records

Hanna Stempień
Prepared by

Wrocław, March 15th 2022.