



KRUK Group
Consolidated financial statements
for the year ended December 31st 2022
Prepared in accordance with International Financial
Reporting Standards as endorsed by the European Union



KRUK Group
December 31st 2022



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Consolidated statement of profit or loss

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income on debt portfolios and loans measured at amortised cost	5	1,390,066	1,081,638
Interest income on loans measured at fair value	5	10,129	40,243
Revenue from sale of debts and loans	5	13,662	9,552
Other income/(expenses) from purchased debt portfolios	5	(16,530)	(26,094)
Revenue from other services	5	74,372	70,783
Other income	5	6,556	4,766
Change in investments measured at fair value	5	3,400	(11,569)
Gain/(loss) on expected credit losses	5	664,135	573,364
Operating income including gain/(loss) on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios		2,145,790	1,742,683
Employee benefits expense	8	(475,486)	(396,488)
Depreciation and amortisation	12.13	(51,188)	(48,355)
Services	6	(205,059)	(150,051)
Other expenses	7	(371,216)	(288,173)
		(1,102,949)	(883,067)
Operating profit		1,042,841	859,616
Finance income	9	7,319	11,479
Finance costs	9	(186,450)	(97,139)
including interest expense on lease liabilities		(2,878)	(2,240)
Net finance costs		(179,131)	(85,660)
Profit before tax		863,710	773,956
Income tax	10	(58,692)	(79,053)
Net profit for period		805,018	694,903
Net profit attributable to:			
Owners of the Parent		804,982	694,758
Non-controlling interests		36	145
Net profit for period		805,018	694,903
Earnings per share			
Basic (PLN)	22	42.07	36.63
Diluted (PLN)	22	40.71	35.80

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

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Net profit for period		805,018	694,903
Other comprehensive income, gross			
Items that may be reclassified subsequently to profit or loss			
Translation reserve	9	24,741	(5,633)
Instruments hedging cash flows and net investment in a foreign operation	24	18,036	32,668
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plans		4,155	-
Other comprehensive income for period, gross		46,932	27,035
Income tax on instruments hedging cash flows and net investment in a foreign operation		(3,294)	-
Other comprehensive income for period, net		43,638	27,035
Total comprehensive income for period		848,656	721,938
Total comprehensive income attributable to:			
Owners of the Parent		848,619	721,774
Non-controlling interests		37	164
Total comprehensive income for period		848,656	721,938

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

PLN thousand

	Note	Dec 31 2022	Dec 31 2021
Assets			
Cash and cash equivalents	19	202,160	199,164
Hedging instruments	24	46,091	13,803
Trade receivables	18	13,033	22,873
Other receivables	18	41,156	35,079
Inventories	16	16,369	20,295
Investments	15	7,137,530	5,416,512
Deferred tax asset	17	44,921	37,560
Property, plant and equipment	12	71,422	80,249
Goodwill	14	17,026	23,840
Other intangible assets	13	70,833	43,474
Other assets	20	20,541	16,551
Total assets		7,681,082	5,909,400
Equity and liabilities			
Liabilities			
Trade and other payables	26	158,271	162,986
Hedging instruments	24	9,824	-
Employee benefit obligations	25	59,639	48,661
Income tax payable		16,406	18,369
Borrowings, debt securities and leases	23	3,945,794	2,869,020
Provisions	27	36,431	43,060
Deferred tax liability	17	201,420	167,077
Total liabilities		4,427,785	3,309,173
Equity			
Share capital	21	19,319	19,013
Share premium		358,506	333,264
Hedge reserve		32,627	17,885
Measurement reserve (defined benefit plans)		4,155	-
Translation reserve		100,448	75,708
Other capital reserves		149,896	122,202
Retained earnings		2,589,066	2,032,745
Equity attributable to owners of the Parent		3,254,017	2,600,817
Non-controlling interests		(720)	(590)
Total equity		3,253,297	2,600,227
Total equity and liabilities		7,681,082	5,909,400

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	Hedge reserve	Measurement reserve (defined benefit plans)	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
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 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	24	-	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
- Redemption of treasury shares		(271)	-	-	-	-	-	(271)	-	(271)
- Share-based payments	30	-	-	-	-	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
Equity as at Jan 1 2022	19,013	333,264	17,885	-	75,708	122,202	2,032,745	2,600,817	(590)	2,600,227
Comprehensive income for period										
Net profit for period	-	-	-	-	-	-	804,982	804,982	36	805,018
Other comprehensive income										
- Exchange differences on translating foreign operations	-	-	-	-	24,740	-	-	24,740	1	24,741
- Measurement of hedging instruments	24	-	14,742	-	-	-	-	14,742	-	14,742
- Measurement of defined benefit plans		-	-	4,155	-	-	-	4,155	-	4,155
Total other comprehensive income		-	14,742	4,155	24,740	-	-	43,637	1	43,638
Total comprehensive income for period		-	14,742	4,155	24,740	-	804,982	848,619	37	848,656
Contributions from and distributions to owners										
- Payment of dividends	22	-	-	-	-	-	(248,661)	(248,661)	(167)	(248,828)
- Issue of shares	21	306	25,242	-	-	-	-	25,548	-	25,548
- Share-based payments	30	-	-	-	-	27,694	-	27,694	-	27,694
Total contributions from and distributions to owners		306	25,242	-	-	27,694	(248,661)	(195,419)	(167)	(195,586)
Total equity as at Dec 31 2022	19,319	358,506	32,627	4,155	100,448	149,896	2,589,066	3,254,017	(720)	3,253,297

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

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cash flows from operating activities			
Net profit for period		805,018	694,903
<i>Adjustments</i>			
Depreciation of property, plant and equipment	12	33,978	31,048
Amortisation of intangible assets	13	17,210	17,307
Impairment losses on goodwill		7,262	-
Net finance costs		179,131	85,660
(Gain)/loss on sale of property, plant and equipment		(1,617)	(455)
Equity-settled share-based payments	30	27,694	18,576
Interest income	5	(1,400,195)	(1,121,881)
Income tax	10	58,692	79,053
Change in loans	15	(53,107)	(91,692)
Change in debt portfolios purchased	15	(1,608,363)	(1,126,268)
Change in inventories	16	3,926	11,774
Change in trade and other receivables	18	3,763	(12,791)
Change in other assets	20	(3,990)	(2,715)
Change in trade and other payables	26	(4,715)	50,971
Change in employee benefit obligations	25	10,978	5,801
Change in provisions	27	(6,629)	(10,064)
Minority interest share of profit		(36)	(145)
Interest received		1,400,195	1,121,881
Income tax paid		(36,967)	(39,760)
Net cash from operating activities		(567,772)	(288,797)
Cash flows from investing activities			
Interest received	9	711	45
Sale of intangible assets and property, plant and equipment		1,274	2,411
Purchase of intangible assets and property, plant and equipment	12.13	(34,256)	(16,068)
Net cash from investing activities		(32,271)	(13,612)
Cash flows from financing activities			
Proceeds from issue of shares	21	25,548	22,836
Proceeds from issue of debt securities	23	545,000	535,000
Increase in borrowings	23	2,381,102	1,894,837
Repayment of borrowings	23	(1,378,216)	(1,228,490)
Payments under finance lease contracts	23	(33,795)	(25,718)
Payment of dividends	22	(248,828)	(206,583)
Redemption of debt securities	23	(467,926)	(540,000)
Interest paid		(219,846)	(95,861)
Net cash from financing activities		603,039	356,021
Total net cash flows		2,996	53,612
Cash and cash equivalents at beginning of period		199,164	145,552
Cash and cash equivalents at end of period	19	202,160	199,164
<i>of which:</i>			
- effect of exchange rate fluctuations on cash held		130	(2,767)
- restricted cash		5,691*	38,931**

** Proceeds from the issue of Series AN2 bonds deposited in a technical account held with the broker, credited in the Group's bank account after the reporting date, on January 10th 2023.*

*** Proceeds from the issue of Series AM1 bonds deposited in a technical account held with the broker, 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

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1. Parent

Name:

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

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 2022 include the financial statements of the Parent, its subsidiaries, and entities controlled through personal links (jointly the "Group" or the "KRUK Group").

As at December 31st 2022, the Group comprises KRUK S.A. of Wrocław, 25 subsidiaries, and 2 entities controlled through personal links:

Subsidiary	Registered office	Principal business activity
DEBT MANAGEMENT		
AgeCredit S.r.l.	Cesena	Credit management in Italy
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Credit management services and collection of debt purchased by the KRUK Group, investing in debt portfolios
KRUK Deutschland GmbH	Berlin	Collection of debt purchased by the KRUK Group, investing in debt portfolios
KRUK Espana S.L.U.	Madrid	Credit management services and collection of debt purchased by the KRUK Group in Spain and other European countries, investing in debt portfolios
KRUK Italia S.r.l.	Milan	Credit management services and collection of debt purchased by the KRUK Group in Italy and other European countries
KRUK Romania S.r.l.	Bucharest	Credit management services and collection of debt purchased by the KRUK Group, investing in debt portfolios

Subsidiary	Registered office	Principal business activity
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;
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund;
Prokura NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund;
InvestCapital Ltd.	Malta	Investing in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt portfolios
ItaCapital S.r.l.	Milan	Investing in debt portfolios
KRUK INVESTIMENTI S.R.L.	Milan	Investing in debt portfolios
Secapital S.a r.l.	Luxembourg	Investing in debt or debt-backed assets
Presco Investments S.a r.l.	Luxembourg	Investing in debt or debt-backed assets
ProsperoCapital S.a r.l. (in liquidation)	Luxembourg	Investing in debt or debt-backed assets
CONSUMER LENDING		
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
Wonga.pl sp. z o.o.	Warsaw	Granting consumer loans
RoCapital IFN S.A.	Bucharest	Granting consumer loans
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 Areal sp. z o.o.	Wrocław	Buying and selling own real estate; services supporting crop production
KRUK TECH s.r.l.	Bucharest	Software development and provision of IT services

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

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 August 31st 2022, the KRUK Group, acting through its subsidiary ProsperoCapital, a party to a joint arrangement, redeemed the entire 33% interest then held by International Finance Corporation (an entity related to the World Bank; “IFC”). As a result, the KRUK Group now holds the right to 100% of ProsperoCapital's assets and liabilities.

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

KRUK S.A. is the Parent of the Group. KRUK S.A. has no parent or shareholder that has the ability to influence the Group's financial and operating policies through control, joint control, or the exercise of significant influence. The subsidiaries are listed below.

	Country	Ownership interest and share in total voting rights	
		Dec 31 2022	Dec 31 2021
SeCapital S.a.r.l. ¹	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o. ⁵	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A. ⁵	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.a.r.l. (in liquidation) ²	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
Presco Investments I NS FIZ ¹	Poland	100%	100%
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	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.	Italy	100%	100%
Zielony Areal Sp. z o.o.	Poland	100%	100%
Kruk TECH S.r.l. ^{1; 4}	Romania	100%	-

¹ Subsidiaries in which the Parent indirectly holds 100% of the share capital.

² ProsperoCapital S.a.r.l. was a party to a joint arrangement until August 2022; on December 30th 2022, it was placed in liquidation.

³ The Parent controls the company through a personal link.

⁴ Entity established in the three months ended March 31st 2022.

⁵ Entity sold outside the Group after the reporting date.



2. Basis of accounting

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 8th 2023.

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 light of the current economic and political climate.

2.2. Basis of accounting

These consolidated financial statements have been prepared for the reporting period January 1st 2022 – December 31st 2022. The comparative data is presented as at December 31st 2021 and for the period January 1st 2021 – December 31st 2021.

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

- at amortised cost calculated using the effective interest rate method
 - including allowance for expected credit losses – for credit-impaired assets,
 - for 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 2022 (PLN thousand)	Dec 31 2021 (PLN thousand)		
Investments in debt portfolios	6,768,087	5,100,176	3.4 15 28.1 28.3	<p>The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows.</p> <p>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/entities (case-by-case analysis). The method of estimating cash flows from 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.</p> <p>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.</p> <p>The original forecast of estimated cash receipts, taking into account the initial value, is used to determine an effective interest rate equal to the internal rate of return including a credit risk component, used to discount the estimated cash receipts, which remains constant over the life of the portfolio.</p>

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2022 (PLN thousand)	Dec 31 2021 (PLN thousand)		
Goodwill	17,026	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	357,003	279,213	3.4 15 28.1 28.3	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). As at December 31st 2022, for loans advanced by Wonga.pl measured at amortised cost: <ul style="list-style-type: none"> – A 10% increase in the expected life of the loans would result in a PLN 824 thousand increase in the gross carrying amount of the loans (December 31st 2021: PLN 1,270 thousand), – A 10% decrease in the expected life of the loans would result in a PLN 1234 thousand decrease in the gross carrying amount of the loans (December 31st 2021: PLN 4,267 thousand), – A parallel shift of the PF curve by 10% would result in a PLN 2,204 thousand increase/decrease in the expected cash flows (December 31st 2021: PLN 1,582 thousand), A 10 pp increase/decrease in LGD would result in a PLN 6,565 thousand decrease/increase in expected cash flows (December 31st 2021: PLN 3,787 thousand).

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2022 (PLN thousand)	Dec 31 2021 (PLN thousand)		
Loans at fair value through profit or loss	12,440	37,123	3.4 15 28.1 28.3	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 projection 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 amount of expected credit losses on the portfolio.

If these parameters changed as at December 31st 2022:

- interest rates by +/- 1pp
- expected credit losses by +/- 10%

the fair value would change by +/- 0.04m and PLN 0.51m, respectively (PLN 0.27m and PLN 0.8m as at December 31st 2021).

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	Dec 31 2022 (PLN thousand)	Dec 31 2021 (PLN thousand)		
Deferred tax assets and liabilities	44,921 (Assets)	37,560 (Assets)	3.23 17	The Group exercises control over the timing of temporary differences regarding subsidiaries, and thus recognizes deferred tax liabilities. These liabilities are based on estimates of future income tax payments, which are derived from three-year plans.
	201,420 (Liabilities)	167,077 (Liabilities)		

The Kruk Group assesses the recoverability of deferred tax assets based on its approved financial forecast for the following years.

The amount of deferred tax liabilities is affected by changes in expected future cash flows from investment companies to KRUK S.A. in the foreseeable future. The level of the cash flows depends on such factors as:

- KRUK S.A.'s liquidity needs and the amount of raised and projected new debt financing available to KRUK S.A.,
- raised and projected new debt financing available to the investment companies,
- the planned expenditure on debt portfolios – its amount determines the projected liquidity position of the investment companies,
- planned recoveries from purchased debt portfolios at the investment companies.

Therefore, the amount of deferred tax liability for *expected future cash flows from subsidiaries* may be subject to material changes in individual reporting periods.

Investments in debt portfolios	-	61,474	3.2 15
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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.

On August 31st 2022, the KRUK Group, through its subsidiary ProsperoCapital, a party to a joint arrangement, redeemed the entire 33% interest in the joint investment in the acquired debt portfolio held by an unrelated party. As a result, as of August 31st 2022 the KRUK Group has the right to 100% of ProsperoCapital's assets and liabilities. New rights to cash flows from the portfolio are recognised in the consolidated financial statements as a purchase of a new portfolio.

Functional currency at InvestCapital	102,571	75,732	3.3.1 21
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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. Given the volume of planned and held investments in debt portfolios, InvestCapital's functional currency is the euro.

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 were no significant changes in accounting policies in 2022.

The Group applied the following amendments to standards and interpretations approved for use in the European Union as of January 1st 2022:

- Amendments to IFRS 3 *Business Combinations*: updated *Reference to the Conceptual Framework*;
- Amendments to IAS 16 *Property, Plant and Equipment*: *Proceeds before Intended Use*;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*: clarifications concerning costs which the Group considers when assessing whether a contract will result in a loss.
- *Annual Improvements to IFRSs 2018–2020 Cycle* – 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 explain and clarify the guidance on recognition and measurement provided in the standards.

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., recognised up to the amount of the Group's interest in assets and liabilities until August 31st 2022.

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 of the respective country 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 December 31st 2022 and December 31st 2021 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). 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. Financial assets were not reclassified in 2022 and 2021.

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 classified as purchased or originated credit-impaired financial assets (POCI). 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 of the effective discount rate is possible if the purchase price is reduced as a result of returning part of receivables held in a given debt portfolio to the seller due to legal defects.

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 revaluations 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. 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.

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 client
- 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 an event of 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, 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 client's rating since 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 client'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 by the lender). 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 client'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 contains a multiplier (leverage).

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. Loans measured at fair value are loans advanced by the Company from September 2020 to May 2021, whose interest rate includes a multiplier (leverage).

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 advanced).

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'. Interest income from assets measured at fair value is presented in a separate line in the statement of profit or loss.

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.

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 (Note 3.5.4).

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. 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 property foreclosed 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 value of recoveries projected as at the acquisition date. Subsequent to initial recognition, it is measured at the lower of the value of projected recoveries 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

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.

For information on the recognition of impairment losses, see Notes 3.4.1 and 3.4.2.

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.

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 (goodwill) or when indications of impairment are identified (other non-financial assets).

The recoverable amount of assets or cash-generating units is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted at a rate which reflects current market assessments of the time value of money and the risks specific to the asset. 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 Group 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 as at the end of each reporting period and as at the option vesting date, by changing the number of options that are expected by the Group to vest unconditionally. Any changes in the value of the plan are disclosed as an adjustment to values previously posted in the period under employee benefits expense. The value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based payments plan, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the value of an individual right may only increase.

Valuation of the plan has been performed using the Black-Scholes model. The selected model takes into account all the 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. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The KRUK Group recognises provisions for the risk of partial refund of the commissions in the event of early loan repayment (see Note 27).

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 clients, 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 9.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 on a continuous basis in monthly and quarterly accounts, depending on the structure of the contract. 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),
- provisions for 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 related to 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 2022 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 2023:

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
IFRS 17 <i>Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>	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 amendments have no significant effect on the consolidated financial statements.	January 1st 2023
Amendments to IAS 12 <i>Deferred tax on assets and liabilities arising from a single transaction</i>	The amendments are intended to clarify how companies should account for deferred taxes on leases and extinguished liabilities.	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 periods beginning on or after
IFRS 17 <i>Insurance Contracts</i> , amendments to IFRS 17	<p>IFRS 17 <i>Insurance Contracts</i> will replace IFRS 4 <i>Insurance Contracts</i>, 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).</p> <p>The purpose of the amendments is to:</p> <ul style="list-style-type: none"> – 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 effect on the consolidated financial statements.	January 1st 2023
Amendments to IAS 1 and IFRS Practice statement 2 – <i>Disclosure of Accounting Policies</i>	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 Group analyses the effect of amendments to the standard on the scope of disclosures in the consolidated financial statements.	January 1st 2023
Amendment to IAS 8 <i>Definition of Accounting Estimates</i>	In the amendment to IAS 8 <i>Definition of Accounting Estimates</i> 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 periods beginning on or after
	amendments to IAS 8 were intended to help entities distinguish changes in accounting policies from changes in accounting estimates.		

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

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
Amendments to IAS 1 <i>Presentation of Financial Statements: Classification of Liabilities</i>	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 2023
Amendments to IFRS 16 <i>Leases: Lease Liability in a Sale and Leaseback</i>	The amendments concern the measurement of lease liabilities in sale and leaseback transactions.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2024

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 services: 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 2022

	Poland		Romania	Italy	Spain	Other foreign markets	Unallocated income / expenses	Head Office	TOTAL
	Poland excluding Wonga.pl	Wonga.pl							
Revenue	906,496	128,658	548,608	360,874	135,714	58,884	6,556	-	2,145,790
Purchased debt portfolios	848,774	-	533,204	352,252	119,562	58,884	-	-	1,912,676
including revaluation of projected recoveries	156,884	-	206,443	49,261	(36,897)	8,169	-	-	383,860
Credit management services	28,480	-	11,691	8,622	16,152	-	-	-	64,945
Other products	29,242	128,658	3,713	-	-	-	-	-	161,613
Other income	-	-	-	-	-	-	6,556	-	6,556
Direct and indirect costs	(291,722)	(45,362)	(111,840)	(180,056)	(122,523)	(22,804)	(8,400)	-	(782,707)
Purchased debt portfolios	(255,801)	-	(101,815)	(172,425)	(100,180)	(22,804)	-	-	(653,025)
Credit management services	(21,280)	-	(6,696)	(7,631)	(22,343)	-	-	-	(57,950)
Other products	(14,641)	(45,362)	(3,329)	-	-	-	-	-	(63,332)
Unallocated expenses	-	-	-	-	-	-	(8,400)	-	(8,400)
Gross profit¹	614,774	83,296	436,768	180,818	13,191	36,080	(1,844)	-	1,363,083
Purchased debt portfolios	592,973	-	431,389	179,827	19,382	36,080	-	-	1,259,651
Credit management services	7,200	-	4,995	991	(6,191)	-	-	-	6,995
Other products	14,601	83,296	384	-	-	-	-	-	98,281
Unallocated income / expenses	-	-	-	-	-	-	(1,844)	-	(1,844)
Administrative expenses	(61,196)	(11,666)	(29,296)	(30,807)	(19,212)	(10,382)	-	(106,495)	(269,054)
EBITDA²	553,578	71,630	407,472	150,011	(6,021)	25,698	(1,844)	(106,495)	1,094,029
Depreciation and amortisation									(51,188)
Finance income/costs									(179,131)
Profit before tax									863,710
Income tax									(58,692)
Net profit									805,018
Carrying amount of debt portfolios	2,770,375	-	1,256,223	1,472,130	1,101,433	167,926	-	-	6,768,087
Carrying amount of loans	64,721	288,354	16,368	-	-	-	-	-	369,443
Cash recoveries	1,232,077	-	593,139	456,745	246,439	98,942	-	-	2,627,343

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

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 projected recoveries	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	(249,140)	(27,146)	(94,869)	(151,116)	(77,572)	(22,183)	(8,499)	-	(630,525)
Purchased debt portfolios	(218,741)	-	(84,394)	(143,558)	(64,806)	(22,183)	-	-	(533,682)
Credit management services	(17,780)	-	(8,573)	(7,558)	(12,766)	-	-	-	(46,677)
Other products	(12,619)	(27,146)	(1,902)	-	-	-	-	-	(41,667)
Unallocated expenses	-	-	-	-	-	-	(8,499)	-	(8,499)
Gross profit¹	551,206	44,942	317,395	128,329	34,967	39,053	(3,733)	-	1,112,158
Purchased debt portfolios	532,487	-	311,332	126,574	32,500	39,053	-	-	1,041,945
Credit management services	6,146	-	4,568	1,754	2,468	-	-	-	14,937
Other products	12,573	44,942	1,495	-	-	-	-	-	59,009
Unallocated income / expenses	-	-	-	-	-	-	(3,733)	-	(3,733)
Administrative expenses	(44,837)	(8,610)	(21,907)	(23,136)	(16,834)	(9,539)	-	(79,324)	(204,187)
EBITDA²	506,369	36,331	295,487	105,193	18,134	29,513	(3,733)	(79,324)	907,971
Depreciation and 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

5. Operating income including gain/(loss) on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios

Breakdown by type of activity

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Revenue from purchased debt portfolios	1,912,676	1,575,627
Revenue from credit management services	64,945	61,614
Revenue from other services	161,613	100,676
Other income	6,556	4,766
	<u>2,145,790</u>	<u>1,742,683</u>

Income from financial assets measured at amortised cost

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Revenue from purchased debt portfolios	1,912,676	1,575,627
Revenue from loans	138,657	62,833
	<u>2,051,333</u>	<u>1,638,460</u>

Interest income on debt portfolios and loans measured at amortised cost

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income on debt portfolios	1,169,202	991,948
Interest income on loans	220,864	89,690
	<u>1,390,066</u>	<u>1,081,638</u>

Revenue from sale of debts and loans

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gain/(loss) on sale of debts	22,925	12,499
Profit/(loss) on loans	(9,263)	(2,947)
	<u>13,662</u>	<u>9,552</u>

Gain/(loss) on expected credit losses

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gain/(loss) on expected credit losses from debt portfolios	737,079	597,274
Gain/(loss) on expected credit losses from loans	(72,944)	(23,910)
	<u>664,135</u>	<u>573,364</u>

Revenue from purchased debt portfolios

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income	1,169,202	991,948
Other income/expenses from purchased debt portfolios	(16,530)	(26,094)
Gain/(loss) on expected credit losses from purchased debt portfolios	737,079	597,274
Gain/(loss) on sale of debts	22,925	12,499
	<u>1,912,676</u>	<u>1,575,627</u>

Other income/expenses from purchased debt portfolios

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Foreign currency gains/(losses)	(1,908)	(13,215)
Costs of loyalty scheme valuation	(6,624)	(7,174)
Costs of provision for overpayments	(7,998)	(5,705)
	<u>(16,530)</u>	<u>(26,094)</u>

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

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Revaluation of projected recoveries	383,860	270,032
Deviations of actual recoveries, decreases on early collections in collateralised cases, payments from original creditor	353,219	327,242
	<u>737,079</u>	<u>597,274</u>

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:

- discount rate in case of change in the amount of the purchased debt portfolio,
- cash flows estimation period,
- expected future cash flows estimated using the current data and debt collection tools and processes.
- 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 2022	Dec 31 2021
Discount rate *	8.00% - 147.10%	8.00% - 147.10%
Cash flows estimation period	Jan 2022–Jun 2043	Jan 2022–Jan 2042
Undiscounted value of expected future recoveries	13,764,663	9,989,010
* Applicable to 99% of debt portfolios.		

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

PLN thousand

	Dec 31 2022	Dec 31 2021
Period		
Up to 12 months	2,181,714	1,813,880
From 1 to 2 years	1,979,975	1,579,581
From 2 to 3 years	1,745,420	1,327,217
From 3 to 4 years	1,453,870	1,052,803
From 4 to 5 years	1,172,660	806,576
From 5 to 6 years	948,012	657,405
From 6 to 7 years	785,290	520,119
From 7 to 8 years	632,161	443,389
From 8 to 9 years	538,006	357,607
From 9 to 10 years	453,222	300,189
From 10 to 11 years	392,846	258,917
From 11 to 12 years	345,127	228,227
From 12 to 13 years	294,225	201,246
From 13 to 14 years	243,635	173,649
From 14 to 15 years	186,276	128,663
Over 15 years	412,224	139,542
	13,764,663	9,989,010

PLN thousand

	Dec 31 2022	Dec 31 2021
discount rate:		
< 25%	9,392,269	5,786,817
25% - 50%	3,753,717	3,542,784
> 50%	618,677	659,409
	13,764,663	9,989,010

The amounts of estimated remaining recoveries on debt portfolios as presented above for different discount rate ranges change for the comparative periods as a result of:

- acquisition of new debt portfolios,
- actual recoveries on existing debt portfolios,
- revaluation of estimated remaining recoveries.

Revenue from loans

Revenue from loans measured at amortised cost

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income	220,864	89,690
Allowance for expected credit losses	(72,944)	(23,910)
Profit/(loss) on loans	(9,263)	(2,947)
	138,657	62,833

Revenue from loans measured at fair value

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income	10,129	40,243
Remeasurement	3,400	(11,569)
	13,529	28,674

Revenue from other services

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Revenue from credit management services	64,945	61,614
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	9,427	9,169
	74,372	70,783

The performance obligation arises upon execution of the contract and provision of the data necessary to initiate the debt recovery process (Note 3.16.1). 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 largest business partner accounted for 10% of total revenue from fee-based credit management (2021: 5%).

Other income

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Re-billed costs of services and court fees		1,905	1,423
Gain on sale of property, plant and equipment		1,617	455
Rental		1,546	-
Write-off of unidentified amounts		278	781
Compensation for motor damage		244	351
Other cooperation		64	43
Grants		9	106
Reversal of allowance for expected credit losses on receivables		-	359
Other		893	1,248
		6,556	4,766

6. Services

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Credit management services ¹	(46,514)	(34,872)
Legal assistance services ²	(38,868)	(22,647)
IT services	(27,429)	(22,839)
Administrative and accounting support services	(19,243)	(13,964)
Postal and courier services	(18,686)	(13,589)
Banking services ³	(12,381)	(9,244)
Communications services	(9,572)	(7,683)
Marketing and management services	(9,304)	(8,707)
Space rental and service charges	(9,204)	(7,906)
Printing services	(3,661)	(1,915)
Recruitment services	(3,109)	(516)
Security	(2,313)	(1,716)
Other auxiliary services	(1,605)	(1,785)
Repair of vehicles	(1,353)	(1,031)
Repair and maintenance services	(816)	(727)
Other rental	(702)	(581)
Transport services	(177)	(94)
Packing services	(122)	(235)
	(205,059)	(150,051)

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, trans collect and direct debit services.

7. Other expenses

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Court fees		(289,716)	(231,757)
Taxes and charges		(36,219)	(38,454)
Raw materials and consumables used		(14,741)	(9,550)
Advertising		(7,923)	(9,833)
Goodwill impairment losses	14	(7,262)	-
Staff training		(4,457)	(1,509)
Entertainment expenses		(2,964)	(761)
Non-deductible VAT		(2,921)	(916)
Business trips		(2,262)	(1,614)
Refund of litigation costs		(1,944)	(748)
Motor insurance		(1,375)	(1,221)
Property insurance		(916)	(770)
Non-compete agreements		(425)	(641)
Membership fees		(293)	(286)
Losses caused by motor damage		(194)	(438)
Allowances for expected credit losses on receivables		-	(329)
Provision for possible differences relative to straight-line basis settlement	28	4,315	14,132
Other		(1,919)	(3,478)
		(371,216)	(288,173)

8. Employee benefits expense

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Salaries and wages	(359,381)	(301,412)
Old-age and disability pension contributions	(28,798)	(22,102)
Other social security contributions	(57,722)	(52,729)
Contribution to the State Fund for the Disabled	(1,891)	(1,669)
Equity-settled cost of stock option plan ¹	(27,694)	(18,576)
	(475,486)	(396,488)

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 2022	Jan 1–Dec 31 2021
Interest income on bank deposits	711	45
Interest income on derivative instruments – FORWARD	-	3,611
Net foreign exchange gains	6,608	7,823
	7,319	11,479

Finance costs

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest and commission expense on financial liabilities measured at amortised cost	(215,221)	(92,697)
including interest	(200,754)	(77,766)
Interest income/expense on hedging instruments – IRS	8,901	(9,179)
Hedging costs	19,770	-
	99	-
Interest income/expense on hedging instruments – CIRS		
Interest income/expense on derivative instruments – CIRS	-	4,736
	(186,450)	(97,139)

Effect of exchange rate movements on statement of profit or loss

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Realised exchange gains/(losses)	9	524	9,413
Unrealised exchange gains/(losses)	9	6,084	(17,236)
Settlement of forward contracts	9	-	3,611
Remeasurement of debt portfolios due to exchange rate movements	5	(1,908)	(13,215)
		4,700	(17,427)

Recognised in other comprehensive income

Exchange differences on translating foreign operations

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Exchange differences on translating foreign operations	24,741	(5,633)
Attributable to:		
Owners of the Parent	24,740	(5,652)
Non-controlling interests	1	19
Finance income/(cost) recognised directly in other comprehensive income	24,741	(5,633)

The increase in exchange differences on translating foreign operations in 2022 compared to 2021 was attributable to the depreciation of the Polish currency against foreign currencies.

10. Income tax

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

PLN thousand	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Current income tax			
Current income tax payable ¹		(35,005)	(52,694)
Deferred income tax			
Related to temporary differences and their reversal	17	(23,687)	(26,359)
Income tax recognised in profit or loss		(58,692)	(79,053)
Deferred income tax			
Related to temporary differences and their reversal		(3,294)	-
Income tax recognised in other comprehensive income		(3,294)	
Income tax recognised in comprehensive income		(61,986)	(79,053)

¹ The amount of tax disclosed in these financial statements includes income tax and CFC tax.

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 2022	Jan 1–Dec 31 2021
Profit before tax	863,710	773,956
Tax calculated at the Parent's rate (19%)	(164,105)	(147,052)
Effect of application of other tax rates abroad and effect of deferred tax	7,499	(377)
Effect of changes in strategy towards subsidiary	-	23,259
Differences resulting from ability to control the timing of reversal of temporary differences relating to the measurement of net assets of subsidiaries and the probability of their reversal in the foreseeable future, and other non-deductible expenses/non-taxable income	97,914	45,117
Income tax recognised in profit or loss	(58,692)	(79,053)
Effective tax rate (%)	6.80%	10.21%

The lower effective tax rate in 2022 compared to 2021 is primarily due to the significant share of the financial results of consolidated companies, the tax value of which will be realised more than three years after the reporting date. The Group is able to control the timing of the reversal of temporary differences, and it is probable that these differences will not reverse in the foreseeable future.

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

PLN thousand	Note	Dec 31 2022	Dec 31 2021
Assets			
Non-current assets			
Property, plant and equipment	12	71,422	80,249
Other intangible assets	13	70,833	43,474
Goodwill	14	17,026	23,840
Investments	15	4,951,442	3,592,179
Hedging instruments	24	42,762	12,804
Deferred tax asset	17	44,921	37,560
Total non-current assets		5,198,406	3,790,106
Current assets			
Inventories	16	16,369	20,295
Investments	15	2,186,088	1,824,333
Trade receivables	18	13,033	22,873
Other receivables	18	41,156	35,079
Hedging instruments	24	3,329	999
Other assets	20	20,541	16,551
Cash and cash equivalents	19	202,160	199,164
Total current assets		2,482,676	2,119,294
Total assets		7,681,082	5,909,400
Equity and liabilities			
Equity			
Share capital	21	19,319	19,013
Share premium		358,506	333,264
Hedge reserve		32,627	17,885
Measurement reserve (defined benefit plans)		4,155	-
Translation reserve		100,448	75,708
Other capital reserves		149,896	122,202
Retained earnings		2,589,066	2,032,745
Equity attributable to owners of the Parent		3,254,017	2,600,817
Non-controlling interests		(720)	(590)
Total equity		3,253,297	2,600,227
Non-current liabilities			
Borrowings, debt securities and leases	22	3,504,152	2,283,629
Deferred tax liability	17	201,420	167,077
Provisions	27	14,124	16,433
Hedging instruments	24	9,824	-
Total non-current liabilities		3,729,520	2,467,139
Current liabilities			
Borrowings, debt securities and leases	21	441,642	585,391
Trade and other payables	26	158,271	162,986
Income tax payable		16,406	18,369
Employee benefit obligations	25	59,639	48,661
Provisions	27	22,307	26,627
Total current liabilities		698,265	842,034
Total liabilities		4,427,785	3,309,173
Total equity and liabilities		7,681,082	5,909,400

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

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 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

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 2022	94,569	46,054	34,591	8,264	1,116	184,593
Reclassification of assets	(1,063)	(732)	(301)	2,096	-	-
Purchase	1,225	10,658	8,273	440	5,178	25,774
Sale/ liquidation	(5)	(4,489)	(4,976)	(784)	(1,107)	(11,361)
Effect of exchange rate changes*	1,079	444	341	113	12	1,989
Gross carrying amount as at Dec 31 2022	95,805	51,935	37,928	10,129	5,199	200,996

Accumulated depreciation

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
Accumulated depreciation as at Jan 1 2022	(46,837)	(34,377)	(14,690)	(8,440)	-	(104,344)
Depreciation	(16,857)	(6,255)	(9,011)	(1,855)	-	(33,978)
Decrease resulting from sale / liquidation	5	4,415	3,977	1,672	-	10,069
Effect of exchange rate changes*	(650)	(362)	(226)	(83)	-	(1,321)
Accumulated depreciation as at Dec 31 2022	(64,339)	(36,579)	(19,950)	(8,706)	-	(129,574)

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 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
As at Jan 1 2022	47,731	11,677	19,901	(176)	1,116	80,249
As at Dec 31 2022	31,466	15,356	17,978	1,423	5,199	71,422

* Exchange differences on translating financial statements in currencies other than PLN.

In 2022 and 2021, there were no impairment losses.

For more information on security interests in property, plant and equipment, see Note 23.

As at December 31st 2022 and December 31st 2021, the value of contractual commitments to purchase property, plant and equipment 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 2022	Dec 31 2021
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	42,157	51,491
Plant and equipment	351	130
Vehicles	16,148	9,589
Intangible assets – software	-	-
	58,655	61,211
Cost of depreciation of right-of-use assets in the reporting period, by class of underlying asset		
Buildings and structures	(16,492)	(16,540)
Plant and equipment	(134)	(99)
Vehicles	(8,802)	(5,996)
Intangible assets – software	(3,027)	-
	(28,455)	(22,636)
Increase in right-of-use assets	30,647	24,474
Decrease in right-of-use assets due to liquidation/termination of contract	(2,239)	(1,723)
Translation differences	7,424	(2,671)
Carrying amount of right-of-use assets, by class of underlying asset at end of period		
Buildings and structures	29,685	42,157
Plant and equipment	218	351
Vehicles	17,096	16,148
Intangible assets – software	19,034	-
	66,032	58,655
Interest expense relating to lease liabilities	2,878	2,240
Cost relating to variable lease payments not included in the measurement of lease liabilities	-	-
Total cash outflow in connection with leases	33,795	25,718

In 2022, costs under short-term and low-value contracts were PLN 702 thousand (2021: PLN 581 thousand).

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 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/ amortised over time	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
Gross carrying amount as at Jan 1 2022	102,441	369	351	238	103,400
Produced internally	397	-	3,142	-	3,539
Purchase	34,752	-	6,711	-	41,463
Liquidation	(846)	-	-	-	(846)
Accounting for assets under development/ amortised over time	1,336	-	(1,098)	(238)	-
Effect of exchange rate changes*	393	-	40	-	433
Gross carrying amount as at Dec 31 2022	138,473	369	9,147	-	147,989

PLN thousand

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation					
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)
Accumulated amortisation as at Jan 1 2022	(59,557)	(369)	-	-	(59,926)
Amortisation	(17,210)	-	-	-	(17,210)
Decrease resulting from sale / liquidation	290	-	-	-	290
Effect of exchange rate changes*	(310)	-	-	-	(310)
Accumulated amortisation as at Dec 31 2022	(76,786)	(369)	-	-	(77,156)

PLN thousand

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2021	47,188	-	219	3,323	50,730
As at Dec 31 2021	42,885	-	351	238	43,474
As at Jan 1 2022	42,885	-	351	238	43,474
As at Dec 31 2022	61,686	-	9,147	-	70,833

In 2022 and 2021, there were no impairment losses.

As at December 31st 2022 and December 31st 2021, the Group had no contractual obligations to purchase intangible assets.

The data presented in Note 12 under *Right of use* is disclosed in the table above.

14. Goodwill

PLN thousand

	Kancelaria Prawna RAVEN	Kruk Espana S.L.	ERIF BIG S.A.	Total
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
Gross carrying amount as at Jan 1 2022	299	47,867	725	48,891
Increase	-	-	-	-
Decrease	-	-	-	-
Translation differences	-	448	-	448
Gross carrying amount as at Dec 31 2022	299	48,315	725	49,339
Impairment losses				
Impairment losses as at Jan 1 2021	-	(25,051)	-	(25,051)
Increase	-	-	-	-
Decrease	-	-	-	-
Impairment losses as at Dec 31 2021	-	(25,051)	-	(25,051)
Impairment losses as at Jan 1 2022	-	(25,051)	-	(25,051)
Increase	-	(7,262)	-	(7,262)
Decrease	-	-	-	-
Impairment losses as at Dec 31 2022	-	(32,313)	-	(32,313)
Net carrying amount				
As at Jan 1 2021	299	22,892	725	23,916
As at Dec 31 2021	299	22,816	725	23,840
As at Jan 1 2022	299	22,816	725	23,840
As at Dec 31 2022	299	16,002	725	17,026

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 7.37% as at December 31st 2022 and 6.06% as at December 31st 2021). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 3.12% for Spain (as at December 31st 2021: 1.58%).

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In 2022, indications were identified for an additional impairment charge of PLN 7,262 thousand on Espand goodwill, resulting in a total impairment charge of PLN 32,313 thousand as of December 31st 2022 (compared with impairment charge of PLN 25,051 thousand as at December 31st 2021).

Sensitivity analysis for Espand goodwill

The Group conducted a sensitivity analysis of the Espand goodwill impairment test to changes in the weighted average cost of capital based on the Kruk Espana Inkaso results scenario (+/- 0.5 p.p.).

The results are shown in the table below:

PLN thousand	weighted average cost of capital		
	6.9%	7.4%	7.9%
Value in use of the assets	21,682	18,835	16,589

With the currently assumed weighted average cost of capital at 7.37%, the value in use of assets is PLN 18,835 thousand, which is lower than the carrying amount (PLN 26,096 thousand), resulting in an impairment loss of PLN -7,262 thousand. The analysis showed that a change in the weighted average cost of capital by ± 0.5 pp would also result in an impairment loss of PLN -4,414 thousand and PLN -9,507 thousand, respectively.

The discount rate at which the value in use offsets the carrying amount (no impairment loss) is 6.29%.

15. Investments

PLN thousand

	Dec 31 2022	Dec 31 2021
Investments in debt portfolios	6,768,087	5,100,176
Loans measured at amortised cost	357,003	279,213
Loans measured at fair value	12,440	37,123
	7,137,530	5,416,512

Investments measured at amortised cost

PLN thousand

	Dec 31 2022	Dec 31 2021
Investments in debt portfolios	6,768,087	5,100,176
Loans measured at amortised cost	357,003	279,213
	7,125,090	5,379,389

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 2022	Dec 31 2021
Unsecured portfolios	6,008,230	4,344,965
Secured portfolios	759,857	755,211
	6,768,087	5,100,176

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

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios). 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 various 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 acquired secured portfolio is slightly different, with due diligence performed for the portfolios on a case-by-case basis.

The change in expected credit losses on remeasurement of forecast inflows from secured portfolios was PLN -57,454 thousand in 2022 (2021: PLN -42,590 thousand).

Sensitivity analysis – revaluation of projected recoveries

The 1% increase in all projected recoveries would result in an increase in the value of portfolios and thus in net profit/(loss) for the reporting period by PLN 57,625 thousand, while the 1% decrease in all projected recoveries would result in a decrease in the value of portfolios, thus reducing net profit/(loss) by PLN 57,625 thousand for the data as at December 31st 2022 (a PLN 44,624 thousand increase/decrease, respectively, for the data as at December 31st 2021).

PLN thousand

	Profit or loss for the current period	
	100 bps increase in recoveries	100 bps decrease in recoveries
Dec 31 2022		
Investments in debt portfolios	57,625	(57,625)
Dec 31 2021		
Investments in debt portfolios	44,624	(44,624)

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 27,992 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 44,380 thousand; for 2021, the amounts were PLN 9,462 thousand and PLN 16,141 thousand, respectively).

PLN thousand

	Profit or loss for the current period	
	extension by one year	shortening by one year
Dec 31 2022		
Investments in debt portfolios	304	(598)
Dec 31 2021		
Investments in debt portfolios	107	(226)

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 28.

Changes in net carrying amount

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

PLN thousand

	Unsecured portfolios	Secured portfolios	TOTAL
Carrying amount of investments in debt portfolios at January 1st 2021	3,285,231	698,849	3,984,080
Purchase of debt portfolios	1,551,679	186,323	1,738,002
Cash recoveries	(1,943,756)	(272,050)	(2,215,806)
Receivables from debt sold	-	(3,200)	(3,200)
Increase/(decrease) in liabilities to indebted persons due to overpayments	5,705	-	5,705
Valuation of loyalty scheme*	7,174	-	7,174
Revenue from purchased debt portfolios	1,439,360	136,267	1,575,627
Carrying amount of property foreclosed	-	(7,156)	(7,156)
Carrying amount of property sold	-	18,374	18,374
Translation differences on debt portfolios**	(428)	(2,196)	(2,624)
Carrying amount of investments in debt portfolios at December 31st 2021	4,344,965	755,211	5,100,176

PLN thousand

	Unsecured portfolios	Secured portfolios	TOTAL
Carrying amount of investments in debt portfolios at January 1st 2022	4,344,965	755,211	5,100,176
Purchase of debt portfolios	2,130,808	180,264	2,311,072
Cash recoveries	(2,293,628)	(333,715)	(2,627,343)
Receivables from debt sold	-	-	-
Increase/(decrease) in liabilities to indebted persons due to overpayments	7,998	-	7,998
Valuation of loyalty scheme*	6,624	-	6,624
Revenue from purchased debt portfolios	1,758,830	153,846	1,912,676
Carrying amount of property foreclosed	-	(4,866)	(4,866)
Carrying amount of property sold	-	9,166	9,166
Translation differences on debt portfolios**	52,633	(49)	52,584
Carrying amount of investments in debt portfolios at December 31st 2022	6,008,230	759,857	6,768,087

* 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'.

** Including purchased debt portfolios in currencies other than PLN.

Changes in expected credit losses

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

<i>PLN thousand</i>	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cumulative expected credit losses on purchased debt portfolios at beginning of period	1,600,562	1,012,210
Revaluation of projected recoveries, including:		
<i>unsecured portfolios</i>	383,860	270,032
<i>secured portfolios</i>	441,314	312,350
	(57,454)	(42,318)
Deviations from actual recoveries, decreases on early collections in collateralised cases, including:		
<i>unsecured portfolios</i>	344,330	318,320
<i>secured portfolios</i>	295,489	291,994
	48,841	26,326
Cumulative expected credit losses on purchased debt portfolios at end of period	2,328,752	1,600,562

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

<i>in thousands of PLN (converted at the average NBP rate on the reporting date)</i>	Debt portfolios purchased in 2022	Debt portfolios purchased in 2021
Unsecured portfolios	4,823,527	3,047,196
Secured portfolios	300,797	317,840
	5,124,324	3,365,036

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.

On August 31st 2022, the KRUK Group, through its subsidiary ProsperoCapital, a party to a joint arrangement, redeemed the entire 33% interest in the joint investment in the acquired debt portfolio held by an unrelated party. As a result, as of August 31st 2022 the KRUK Group has the right to 100% of ProsperoCapital's assets and liabilities. New rights to cash flows from the portfolio are recognised in the consolidated financial statements as a purchase of a new portfolio.

Loans

In 2022, 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 2022	Dec 31 2021
Loans measured at amortised cost	357,003	279,213
Loans measured at fair value	12,440	37,123
	369,443	316,336

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	Dec 31 2022	Dec 31 2021
Gross carrying amount of loans measured at amortised cost		
Basket 1	216,799	205,064
Basket 2	117,473	65,222
Basket 3	182,377	96,234
POCI loans	1,478	1,866
	518,127	368,386
Allowance for expected credit losses		
Basket 1	9,769	9,657
Basket 2	17,316	7,538
Basket 3	134,039	71,977
POCI loans	-	-
	161,124	89,172
Net carrying amount		
Basket 1	207,030	195,406
Basket 2	100,157	57,684
Basket 3	48,338	24,257
POCI loans	1,478	1,866
	357,003	279,213

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

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

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Carrying amount of loans measured at amortised cost at beginning of period	279,213	152,666
Acquisition of loans as part of portfolio purchase	8,530	
New disbursements	593,852	483,783
Repayments	(663,700)	(420,211)
Interest income	220,864	89,690
Allowance for expected credit losses	(72,944)	(23,910)
Gain/(loss) on sale of loans	(9,263)	(2,947)
Translation differences on loans	451	142
Carrying amount of loans measured at amortised cost at end of period	357,003	279,213

Changes in the gross carrying amount and allowances for expected credit losses are presented in Note 28.1.

Sensitivity analysis – revaluation of projected recoveries

The note presents the effect of a change in projected recoveries 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	
	100 bps increase in recoveries	100 bps decrease in recoveries
Dec 31 2022		
Loans measured at amortised cost	3,496	(3,511)
Dec 31 2021		
Loans measured at amortised cost	2,790	(2,790)

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	shortening by one month
Dec 31 2022		
Loans measured at amortised cost	(5,885)	5,448
Dec 31 2021		
Loans measured at amortised cost	(6,011)	5,472

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 28.

Loans measured at fair value

Changes in the carrying amount of loans measured at fair value:

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Carrying amount of loans measured at fair value at beginning of period	37,123	71,978
New disbursements	-	211,890
Repayments	(38,212)	(275,419)
Interest income	10,129	40,243
Remeasurement	3,400	(11,569)
Carrying amount of loans measured at fair value at end of period	12,440	37,123

Sensitivity analysis – revaluation of projected recoveries

The note presents the effect of a change in projected recoveries 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	
	100 bps increase in recoveries	100 bps decrease in recoveries
Dec 31 2022		
Loans measured at fair value	124	(124)
Dec 31 2021		
Loans measured at fair value	366	(377)

Sensitivity analysis – time horizon

The note presents the effect of extending or shortening the recovery 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	shortening by one month
Dec 31 2022		
Loans measured at fair value	(296)	286
Dec 31 2021		
Loans measured at fair value	(811)	767

Sensitivity analysis – interest rate

The interest rate on loans measured at fair value is 33% (December 31st 2021: 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 2022		
Loans measured at fair value	130	(129)
Dec 31 2021		
Loans measured at fair value	272	(267)

16. Inventories (including property foreclosed as part of investments in debt portfolios)

PLN thousand	Dec 31 2022	Dec 31 2021
Real property	16,243	20,295
Other inventories	126	-
	16,369	20,295

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

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Carrying amount of property held at beginning of period	20,295	32,056
Carrying amount of property foreclosed	5,378	7,156
Carrying amount of property sold	(5,716)	(13,131)
Impairment losses	(3,689)	(5,628)
Currency translation differences on property valuation*	(25)	(158)
Carrying amount of property held at end of period	16,243	20,295

* Exchange differences on translating financial statements in currencies other than PLN.

As at December 31st 2022, the inventory write-down was PLN 3,689 thousand (December 31st 2021: PLN 5,628 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 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Property, plant and equipment	8,725	6,279	(4,983)	(6,198)	3,742	81
Intangible assets	-	-	(5,148)	(1,745)	(5,148)	(1,745)
Tax losses deductible in future periods	11,920	8,155	-	-	11,920	8,155
Trade and other receivables	-	-	(413)	(245)	(413)	(245)
Borrowings and other debt instruments	16,633	7,775	-	-	16,633	7,775
Employee benefit obligations	2,590	2,392	-	-	2,590	2,392
Provisions and liabilities	-	40	(109)	-	(109)	40
Investments in debt portfolios	-	-	(7,058)	(6,974)	(7,058)	(6,974)
Investments in loans	32,923	29,328	-	-	32,923	29,328
Derivative hedging instruments	-	-	(3,294)	-	(3,294)	-
Expected future outflows of income from investments in subsidiaries	-	-	(208,285)	(168,325)	(208,285)	(168,325)
Deferred tax assets/liabilities	72,791	53,969	(229,290)	(183,486)	(156,499)	(129,517)
Deferred tax assets offset against liabilities	(27,870)	(16,409)	27,870	16,409		
Deferred tax assets/liabilities in the statement of financial position	44,921	37,560	(201,420)	(167,077)	(156,499)	(129,517)

Change in temporary differences in the period

PLN thousand

	Net amount of income tax as at Jan 1 2022	Change in temporary differences recognised in profit or loss for the period	Net amount of income tax as at Dec 31 2022	Net amount of income tax as at Jan 1 2021	Change in temporary differences recognised in profit or loss for the period	Net amount of income tax as at Dec 31 2021
Property, plant and equipment	81	3,661	3,742	(78)	159	81
Intangible assets	(1,745)	(3,403)	(5,148)	(1,630)	(115)	(1,745)
Tax losses deductible in future periods	8,155	3,765	11,920	7,967	189	8,155
Trade and other receivables	(245)	(168)	(413)	(268)	24	(245)
Borrowings and other debt instruments	7,775	8,858	16,633	21,112	(13,337)	7,775
Employee benefit obligations	2,392	198	2,590	2,488	(96)	2,392
Provisions and liabilities	40	(149)	(109)	56	(16)	40
Investments in debt portfolios	(6,974)	(84)	(7,058)	(6,984)	10	(6,974)
Investments in loans	29,328	3,595	32,923	23,035	6,293	29,328
Expected future outflows of income from investments in subsidiaries	(168,325)	(39,960)	(208,285)	(148,857)	(19,468)	(168,325)
	(129,517)	(23,687)	(153,205)	(103,159)	(26,358)	(129,517)

PLN thousand

	Net amount of income tax as at Jan 1 2022	Change in temporary differences recognised in other comprehensive income	Net amount of income tax as at Dec 31 2022	Net amount of income tax as at Jan 1 2021	Change in temporary differences recognised in other comprehensive income	Net amount of income tax as at Dec 31 2021
Derivative hedging instruments	-	(3,294)	(3,294)	-	-	-
	-	(3,294)	(3,294)	-	-	-

The Group exercises control over the timing of temporary differences regarding subsidiaries, and thus recognizes deferred tax liabilities. These liabilities are based on estimates of future income tax payments (three years).

The Kruk Group assesses the recoverability of deferred tax assets based on its approved financial forecast for the following years.

The amount of deferred tax liabilities is affected by changes in expected future cash flows from investment companies to KRUK S.A. in the foreseeable future. The level of the cash flows depends on such factors as:

- KRUK S.A.'s liquidity needs and the amount of raised and projected new debt financing available to KRUK S.A.,
- raised and projected new debt financing available to the investment companies,
- the planned expenditure on debt portfolios – its amount determines the projected liquidity position of the investment companies,
- planned recoveries from purchased debt portfolios at the investment companies.

Therefore, the amount of deferred tax liability for *expected future cash flows from subsidiaries* may be subject to material changes in individual reporting periods.

The sensitivity analysis of deferred tax shows the impact of changes in the assumptions for 2023–2025 on:

- projected new debt financing at KRUK S.A.,
- planned investments in debt portfolios at the KRUK Group, taking into account the associated change in the level of necessary debt financing by KRUK S.A., deferred tax liabilities (due to changes in expected future cash flows to KRUK S.A.).

PLN thousand

	debt financing at KRUK S.A. in 2023-2025 higher by PLN 300 million	debt financing at KRUK S.A. in 2023-2025 lower by PLN 300 million	expenditure on debt portfolios at the KRUK Group in 2023-2025 higher by PLN 300 million*	expenditure on debt portfolios at the KRUK Group in 2023-2025 lower by PLN 300 million*
Dec 31 2022				
Deferred tax liability	(31,837)	30,085	(21,671)	21,726

* Assuming KRUK S.A. needs to raise more/less debt financing.

The level of the deferred tax liability could also change due to such factors as different structures of financing the planned investments in debt portfolios, and a different distribution of investments among the investing companies.

The Group takes advantage of the exemption under IAS 12 and does not recognise a deferred tax liability in respect of retained earnings in 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 2022 was PLN 3,676,475 thousand (as at December 31st 2021: PLN 2,332,410 thousand).

Unrecognised deferred tax asset due to tax loss

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

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

PLN thousand	Tax loss expiry date	Dec 31 2022	Dec 31 2021
Tax loss for 2018	Dec 31 2023	10,791	17,604
Tax loss for 2019	Dec 31 2024	1,084	1,135
		11,875	18,739
Applicable tax rate		19%	19%
Potential benefit of tax losses		2,256	3,560

Deferred tax assets of PLN 2,256 thousand (2021: PLN 3,560 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 2022	Dec 31 2021
Short-term trade receivables	13,033	22,873
	13,033	22,873

Other receivables

PLN thousand	Dec 31 2022	Dec 31 2021
Taxes receivable (other than income tax)	24,606	15,933
Receivables under security deposits and bid bonds	8,405	9,111
Receivables under collected debts	7,666	9,047
Other receivables	115	684
Employee loans	248	272
Receivables for court fees and stamp duty	116	32
	41,156	35,079

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 28.

19. Cash and cash equivalents

PLN thousand

	Dec 31 2022	Dec 31 2021
Cash in hand	128	145
Cash in current accounts	196,341	160,088
Cash proceeds from bond issues deposited in technical account at brokerage house	5,691*	38,931**
	202,160	199,164

* Proceeds from the issue of Series AN2 bonds, credited in the Group's bank account after the reporting date, on January 10th 2023.

** Proceeds 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 28.

20. Other assets

PLN thousand

	Dec 31 2022	Dec 31 2021
Expenses relating to future reporting periods	8,778	9,709
IT costs amortised over time	9,183	5,859
Insurance	2,580	976
Other	-	7
	20,541	16,551

21. Equity

Share capital

Ordinary shares

	2022	2021
thousands of shares		
Number of shares as at Jan 1	19,013	19,011
Issue of shares	306	273
Cancellation of shares	-	(271)
Number of fully-paid shares at end of period	19,319	19,013

PLN

Par value per share	1.00	1.00
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PLN thousand

Par value of share capital as at Jan 1	19,013	19,011
Par value as at Dec 31	19,319	19,013

Parent's shareholding structure

As at December 31st 2022, the share capital comprised 19,319 thousand registered shares with voting and dividend rights (December 31st 2021: 19,013 thousand registered shares with voting and dividend rights).

As at Dec 31 2022	Number of shares	Par value (PLN thousand)	Ownership interest (%)
Shareholder			
Piotr Krupa	1,809,050	1,809	9.36%
NN PTE ¹	2,763,000	2,763	14.30%
Allianz OFE	2,359,217	2,359	12.21%
PZU OFE	1,507,000	1,507	7.80%
Aegon OFE	1,140,500	1,141	5.90%
Other members of the Management Board	228,328	228	1.18%
Other shareholders	9,511,695	9,512	49.24%
	19,318,790	19,319	100%

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%

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 Incentive 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 Parent's share capital and issue of subscription warrants with the 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.

For details of the 2015–2019 Incentive Scheme, see the Group's consolidated financial statements for the year ended December 31st 2021 and earlier.

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

Tranches under the 2015–2019 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 2022, 845,574 subscription warrants were converted into Series F shares in the Company. The eligible persons hold 2,376 warrants convertible into Series F shares issued under the 2015–2019 Incentive Scheme.

Number of warrants granted to current and former Management Board members under the 2015–2019 Incentive Scheme	
Name and surname	Number of Tranches 1–5 warrants granted and exercised
Piotr Krupa	83,942
Piotr Kowalewski*	22,138
Adam Łodygowski**	-
Urszula Okarma	63,893
Michał Zasępa	63,893
Agnieszka Kułton***	56,663
Iwona Słomska****	56,663

* 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.

Number of options	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Number of options priced under the 2015–2019 Incentive Scheme at the beginning of the reporting period*:	915,465	873,376
Number of options priced under the 2015–2019 Incentive Scheme during the reporting period*:	-	42,089
Number of options priced under the 2015–2019 Incentive Scheme at the end of the reporting period*:	915,465	915,465
Number of options exercised under the 2015–2019 Incentive Scheme during the reporting period:	539,682	266,829
Number of options forfeited under the 2015–2019 Incentive Scheme in previous reporting periods**:	67,515	67,515
Number of options forfeited under the 2015–2019 Incentive Scheme during the reporting period**:	-	-
Number of options exercised under the 2015–2019 Incentive Scheme during the reporting period:	305,892	272,853
Number of options exercisable under the 2015–2019 Incentive Scheme at the end of the reporting period:	2,376	275,276
Issue price of options in the 2015–2019 Incentive Scheme	83.52	83.52

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

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

Rights attached to warrants issued under the 2015–2019 Incentive Scheme may be exercised by their holders until December 31st 2022.

Due to the expiration of the subscription warrants and rights attached to them on December 31st 2022, the Group will take the necessary measures to forfeit any unexercised warrants registered with the CSDP.

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 Parent'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 may acquire Series H shares of the Parent on preferential terms set out in the resolution. Eligible persons are the President of the Management Board, members of the Management Board, employees of the Parent, as well as members of management boards and employees of 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%. For details on EPS calculations for the purposes of the 2021–2024 Incentive Scheme, see the resolution of the KRUK S.A. General Meeting of June 16th 2021.

Subscription warrants of the additional pool will be offered on condition that the rate of return on the shares (taking into account profit distributions to shareholders in the form of dividends) increases, at the end of the 2021–2024 Incentive Scheme, by a predetermined amount relative to the issue price.

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

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 is 40% of all warrants.

Acting in accordance with the Incentive Scheme, the Supervisory Board resolved on July 5th 2021 to determine the list of persons eligible to participate in the 2021–2024 Incentive Scheme who are members of the Management Board of the Parent. By resolution of July 15th 2021, the Management Board of the Parent determined the list of persons who are not members of the Management Board and are eligible to participate in the 2021–2024 Incentive Scheme.

In 2021, EPS grew by 58.34%, and on May 13th 2022, the Supervisory Board of KRUK S.A. passed a resolution to acknowledge that the condition set out in the 2021–2024 Incentive Scheme had been met for the purpose of issuing and offering Tranche I subscription warrants in view of fulfilment in 2021 of the conditions of the 2021–2024 Incentive Scheme.

Therefore, on July 5th 2022, the Supervisory Board passed a resolution determining the list of Management Board members eligible to acquire Tranche I subscription warrants for the fulfilment in 2021 of the conditions of the 2021–2024 Incentive Scheme. In line with that resolution, a total of 76,044 subscription warrants were awarded to eligible Management Board members for 2021 in Tranche I. The warrants were subscribed for by Management Board members on July 29th 2022. The table below shows the number of warrants awarded to and subscribed for by each Management Board member.

Number of Tranche I warrants awarded to and subscribed for by Management Board members under the 2021–2024 Incentive Scheme

Name and surname	Number of Tranche I warrants awarded and subscribed for
Piotr Krupa	22,812
Piotr Kowalewski	13,308
Adam Łodygowski	13,308
Urszula Okarma	13,308
Michał Zasępa	13,308

By resolution of July 5th 2022 on determining the list of persons eligible to acquire Tranche I subscription warrants for the fulfilment in 2021 of the vesting conditions of the 2021–2024 Incentive Scheme, the Management Board of the Parent granted a total of 96,094 subscription warrants to eligible persons.

Number of options	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Number of options priced under the 2021–2024 Incentive Scheme at the beginning of the reporting period*:	884,326	-
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	884,326
Number of options forfeited under the 2021–2024 Incentive Scheme during the reporting period**:	18,804	-
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	248.96

* 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.

The table includes options that were "reverted to the pool" (the options had been valued, but employees did not acquire the rights and the warrants were not offered to them), after which the warrants were granted to other individuals and valued again. Upon completion of the scheme, the cost was adjusted downwards to reflect the amount of the initial valuations.

In 2022, the average share price was PLN 282.29 (2021: PLN 262.27).

As at December 31st 2022 and December 31st 2021, the liability under share-based payment transactions was PLN 0.

As at December 31st 2022, Members of the Parent's Management Board held no rights to KRUK S.A. shares other than the rights conferred by the subscription warrants issued under the 2021–2024 Incentive Scheme, as shown above.

Members of the Supervisory Board do not hold subscription warrants issued under the 2015–2019 Incentive Scheme and the 2021–2024 Incentive Scheme.

	2021–2024 Incentive Scheme	2015–2019 Incentive Scheme
Weighted average fair value of options	248.96	83.52
Method of measuring the fair value of the options	The weighted average fair value of the options was determined based on the weighted average closing price of Company shares in the period May 15th–June 15th 2021.	The weighted average fair value of the options was determined based on the average closing price of Company shares on all trading days in the period February 27th–May 27th 2014.
Weighted average share price	305.40	98.00
Exercise price	248.96	83.52
Expected volatility	43%	28%
Term	4 years	4 years
Expected volatility of dividend	4.38%	4.11%
Risk-free rate, determined based on IRS interbank rates quoted by banks on the valuation date	1.70%	2.55%

The Parent uses historical volatility of its share prices to estimate the expected volatility of its shares, for each tranche taking into account the period between the offer date of the option (the valuation date) and the expected exercise date (rounded to full years). The volatilities thus determined for each tranche are used to calculate a weighted average, with the weights being the number of options priced in each tranche.

The valuation took into account the vesting conditions of the scheme, including the time of vesting, a 24-month lockup period from the start of the scheme, the expected time of exercise falling between the start and end of the scheme, and the time of closing the scheme.

Measurement reserve (defined benefit plans)

Under Italian law, the Group is required to recognise, in accordance with IAS 19, provisions for termination compensation (*Trattamento di Fine Rapporto, TFR*) which are recognised as a defined benefit plan.

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 2022	Jan 1–Dec 31 2021
InvestCapital Ltd.	26,839	(13,992)
SeCapital S.à r.l.	-	7,794
Kruk Italia	660	503
Kruk Deutschland GmbH	195	(69)
Kruk Espana S.L.	1,325	(1,275)
KRUK Romania S.r.l.	353	1,217
ItaCapital S.r.l.	(6,958)	1,056
KRUK Česká a Slovenská republika s.r.o.	1,532	1,031
ProsperoCapital S.à r.l.	(100)	(1,210)
Other markets	895	(688)
	24,741	(5,633)

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 2022, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 804,982 thousand (2021: PLN 694,758 thousand) and the weighted average number of shares in the reporting period of 19,136 thousand (2021: 18,966 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Net profit for period	805,018	694,903
Non-controlling interests	(36)	(145)
Net profit attributable to ordinary shareholders of the Parent	804,982	694,758

Weighted average number of ordinary shares

thousands of shares	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Number of ordinary shares as at Jan 1	21	19,013	19,011
Effect of redemption and issue		123	(45)
Weighted average number of ordinary shares at end of reporting period		19,136	18,966
PLN			
Earnings per share		42.07	36.63

Dividend per share paid

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Dividend paid from profit and retained earnings	248,661	206,140
PLN		
Dividend per share	13.00	11.00

Diluted earnings per share

As at December 31st 2022, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 804,982 thousand (2021: PLN 694,758 thousand) and the weighted average number of shares in the reporting period of 19,772 thousand (2021: 19,407 thousand). The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

thousands of shares	Dec 31 2022	Dec 31 2021
Weighted average number of ordinary shares at end of reporting period	19,136	18,966
Effect of issue of unregistered shares not subscribed for	636	441
Weighted average number of ordinary shares at end of reporting period (diluted)	19,772	19,407
PLN		
Earnings per share (diluted)	40.71	35.80

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 28.

PLN thousand

	Dec 31 2022	Dec 31 2021
Non-current liabilities		
Secured borrowings	2,155,455	1,409,351
Liabilities under debt securities (unsecured)	1,308,234	833,032
Lease liabilities	40,463	41,247
	<u>3,504,152</u>	<u>2,283,629</u>
Current liabilities		
Secured borrowings	339,401	86,551
Liabilities under debt securities (unsecured)	73,781	471,727
Lease liabilities	28,460	27,113
	<u>441,642</u>	<u>585,391</u>

As at December 31st 2022, borrowing costs capitalised were PLN 16,726 thousand (December 31st 2021: PLN 9,580 thousand).

Realized and unrealized exchange rate differences affecting the financial liabilities were PLN -890 thousand in 2022 and PLN 2,497 thousand in 2021.

Change in financial liabilities

PLN thousand

	Change in financial liabilities						
	As at Dec 31 2022	Disbursements	Repayments	Finance costs	Interest paid	(Gain)/loss on sale of property, plant and equipment	As at Dec 31 2021
Secured borrowings	2,494,856	2,381,102	(1,378,216)	94,507	(98,438)		1,495,902
Liabilities under debt securities (unsecured)	1,382,015	545,000	(467,926)	118,712	(118,530)		1,304,759
Lease liabilities	68,923	36,518	(33,795)	2,909	(2,878)	(2,191)	68,360
	<u>3,945,794</u>	<u>2,962,620</u>	<u>(1,879,937)</u>	<u>216,128</u>	<u>(219,846)</u>	<u>(2,191)</u>	<u>2,869,021</u>

PLN thousand

	Change in financial liabilities					(Gain)/loss on sale of property, plant and equipment	As at Dec 31 2020
	As at Dec 31 2021	Disbursements	Repayments	Finance costs	Interest paid		
Secured borrowings	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 2022	Dec 31 2021
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.85pp; 3M WIBOR + margin of 2.7pp; 1M EURIBOR + 2.2–2.95pp	2022-2028	2,494,856	1,495,902
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 3.2–4.0pp; 4.00% - 4.80%	2023-2028	1,382,015	1,304,759
Lease liabilities	EUR/PLN CZK	3M WIBOR or 1M EURIBOR + margin of 0.8–9.7pp; 3.00 - 6.80%	2023-2030	68,923	68,360
				3,945,794	2,869,021

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 2022			
up to 1 year	31,784	3,324	28,460
from 1 to 5 years	39,176	1,214	37,962
	<u>70,960</u>	<u>4,538</u>	<u>66,422</u>
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
	<u>63,037</u>	<u>2,675</u>	<u>60,362</u>

Security over assets

PLN thousand

	Dec 31 2022	Dec 31 2021
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.r.l	4,897,104	3,162,944
Property, plant and equipment used under lease contracts	17,096	16,148
	<u>4,914,200</u>	<u>3,179,092</u>

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 33.

Impact of IBOR reform

The Group does not anticipate a material impact from IBOR reform on its financial obligations, but cannot conclusively determine its effect as not all systemic and regulatory solutions have been finalised. The Group takes measures to prepare for a change in the benchmarks underlying concluded financial instruments in the event 3M WIBOR ceases to be published. The Group continuously monitors regulatory changes in benchmarks, and negotiates amendments to the Master and Credit Agreements governing the hedging instruments and bank loans used by the Group companies, to ensure optimal transition to an alternative benchmark when the WIBOR is replaced.

The individual items for which WIBOR is used as the benchmark are presented below:

PLN thousand

	<u>Dec 31 2022</u>
Carrying amount of financial liabilities for which WIBOR is used as the benchmark	
Borrowings secured over the Group's assets	814,934
Liabilities under debt securities (unsecured)	1,382,015
Lease liabilities	13,771
Notional amount of hedging instruments for which WIBOR is used as the benchmark	
CIRS	940,000
IRS	255,000

24. 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 28.3).

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.

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 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 Group 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.

On June 29th 2022, the Group entered into a trilateral contract transfer agreement between DNB Bank Polska S.A., ING Bank Śląski S.A. and KRUK S.A., whereby three IRS contracts with a total nominal amount of PLN 200,000 thousand were transferred from DNB Bank Polska S.A. to ING Bank Śląski S.A. KRUK S.A. has remained a party to the contracts and the contract terms have not changed.

In 2022, the Group entered into a EUR 210m interest rate swap (IRS), paying a coupon based on a fixed EUR interest rate and receiving a coupon based on a variable EUR interest rate. The IRS provides a hedge against interest rate risk.

The purpose of the EUR contract was to provide a hedge against volatility of cash flows generated by liabilities in EUR due to changes in the 1M EURIBOR rate and to hedge interest payments under a credit facility.

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 the KRUK Group companies as at December 31st 2022, with a total notional amount of PLN 255,000 thousand and EUR 210,000 thousand:

Bank	Group company	Type of transaction	Notional amount	Side of transaction – Buy /Sale of fixed rate	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 30,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Nov 27 2023
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Feb 6 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 35,000,000.00	buy	1.6050%	3M WIBOR	Sep 4 2019 to Oct 12 2023
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 115,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 27 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 50,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 28 2024
ING Bank Śląski S.A.	InvestCapital Ltd.	IRS	EUR 210,000,000.00	buy	2.6535%	EUR 1M	Nov 29 2022 to Jun 30 2027

* The contracts were transferred from DNB Polska S.A. to ING Bank Śląski S.A. without changing their terms.

Open outstanding IRS contracts held by Kruk Group companies as December 31st 2021, with a total volume of PLN 530,000 thousand:

Bank	Group company	Type of transaction	Notional amount	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	Nov 7 2017 to Mar 2 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	2.50%	3M WIBOR	Nov 7 2017 to May 4 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 75,000,000.00	buy	1.67%	3M WIBOR	Sep 5 2019 to Oct 18 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 30,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Nov 27 2023
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Feb 6 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 35,000,000.00	buy	1.6050%	3M WIBOR	Sep 4 2019 to Oct 12 2023
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 115,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 27 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 28 2024

In 2022, the Group entered into currency interest rate swaps (CIRS) with a total notional amount of PLN 940,000 thousand, 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 purpose of the CIRS contracts is to:

- hedge against interest rate risk, understood as volatility of interest expense due to changes in the 3M WIBOR rate – exchange of floating interest rate for a fixed rate;
- hedge against currency risk, understood as volatility of the net value of EUR-denominated assets due to EUR/PLN exchange rate movements – offsetting exchange differences.

The hedge ratio for the 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).

Open outstanding CIRS contracts held by Kruk Group companies as at December 31st 2022, with a total volume of PLN 940,000 thousand:

Bank	Group company	Type of transaction	Notional amount	Side of transaction – Buy / Sale of fixed rate	Fixed rate [EUR]	Variable rate [PLN]	Transaction date	Transaction maturity date
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 330,000,000	buy	2.13%	3M WIBOR	Jun 14 2022	May 24 2027
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 140,000,000	buy	1.90%	3M WIBOR	Jun 23 2022	Mar 24 2027
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 50,000,000	buy	1.72%	3M WIBOR	Jun 20 2022	Mar 16 2026
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 50,000,000	buy	1.56%	3M WIBOR	Jun 21 2022	Mar 16 2026
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 105,000,000	buy	1.21%	3M WIBOR	Jul 15 2022	Jan 23 2026
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 52,500,000	buy	0.96%	3M WIBOR	Jul 15 2022	Jan 22 2025
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 52,500,000	buy	0.955%	3M WIBOR	Jul 18 2022	Jan 23 2024
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 50,000,000	buy	1.40%	3M WIBOR	Jul 20 2022	Mar 2 2026
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 25,000,000	buy	0.90%	3M WIBOR	Jul 20 2022	Mar 2 2024
DNB Bank ASA	KRUK S.A.	CCIRS	PLN 60,000,000	buy	1.96%	3M WIBOR	Dec 12 2022	Jul 27 2027
DNB Bank ASA	KRUK S.A.	CCIRS	PLN 25,000,000	buy	2.05%	3M WIBOR	Dec 21 2022	Nov 27 2026

The transactions were designated for hedge accounting.

Hedge ineffectiveness occurs when the sum of the notional amount of the hedging instrument is greater than the carrying amount of the net assets at the reporting date (after taking into account other relationships hedging the net asset). The ineffective portion is the proportion of profit or loss on the hedging instrument allocated to the excess of the notional amount of the hedging instrument over the nominal value of the hedged item. As a result, the amount relating to the effective portion and the amount relating to the cost of the hedge are both reduced in the same proportion. The change in fair value from the date of the hedging instrument and the establishment of the hedging relationship to the measurement date representing the ineffective portion is recognised in profit or loss on an ongoing basis.

Events subsequent to the reporting date

After the reporting date, the Group entered into currency interest rate swaps (CIRS) with a total nominal amount of PLN 195,000 thousand, under which the Group pays a coupon based on a fixed interest rate on debt determined in EUR under the transaction terms and receives a coupon based on a variable interest rate on debt in PLN. The purpose of CIRSs is to:

- hedge against interest rate risk, understood as volatility of interest expense due to changes in the 3M WIBOR rate – exchange of floating interest rate for a fixed rate;
- hedge against currency risk, understood as volatility of the net value of EUR-denominated assets due to EUR/PLN exchange rate movements – offsetting exchange differences.

As at the date of issue of this report, the Group was a party to the following CIRS contracts executed after the reporting date:

Bank	Type of transaction	Notional amount	Side of transaction – Buy / Sale of fixed rate	Fixed rate [EUR]	Variable rate [PLN]	Transaction date	Transaction start	Transaction maturity date
DNB Bank ASA	CCIRS	PLN 75,000,000	buy	2.49%	3M WIBOR	Jan 10 2023	Jan 1 2023	Mar 26 2025
DNB Bank ASA	CCIRS	PLN 120,000,000	buy	2.02%	3M WIBOR	Jan 27 2023	Apr 4 2023	Jan 26 2028

The transaction was designated for hedge accounting.

Currency risk hedges

The Group's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (Note 28.3).

The currency risk management policy outlines:

- the Group's currency risk management objectives;
- the key principles 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 against currency risk arising from the translation of net assets in a foreign entity, which involved execution of hedging transactions by Group companies. The Group's objective is to mitigate the effect of exchange differences arising on consolidation of foreign subsidiaries on the consolidated financial statements. The transactions were entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

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	Apr 30 2019	- 60,000,000	258,462,000
Apr 30 2019	May 31 2019	- 82,000,000	351,853,800
May 31 2019	Jun 28 2019	- 60,000,000	257,496,000
May 31 2019	Jun 28 2019	- 23,000,000	98,573,400
Jun 28 2019	Jul 31 2019	- 21,000,000	89,434,800
Jun 28 2019	Jul 31 2019	- 60,000,000	255,372,000
Jul 31 2019	Aug 30 2019	- 55,000,000	236,434,000
Jul 31 2019	Aug 30 2019	- 21,000,000	90,241,200
Aug 30 2019	Sep 30 2019	- 32,000,000	140,409,600
Aug 30 2019	Sep 30 2019	- 31,000,000	135,987,700
Sep 30 2019	Oct 31 2019	- 29,000,000	127,104,100
Sep 30 2019	Oct 31 2019	- 30,000,000	131,383,500
Oct 31 2019	Nov 29 2019	- 30,000,000	128,083,500
Oct 31 2019	Nov 29 2019	- 29,000,000	123,757,500
Nov 29 2019	Dec 31 2019	- 30,000,000	129,937,500
Nov 29 2019	Dec 31 2019	- 25,000,000	108,310,000
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 2022, 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 applied temporary specific exceptions to hedge accounting requirements in IFRS 9 in connection with the IBOR reform and assumed that it could continue hedging relationships. The notional amounts of the hedging instruments to which these exceptions apply are disclosed in Note 23.

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).

In 2022, the Group entered into currency interest rate swaps (CIRS) with a total notional amount of PLN 940,000 thousand, 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 purpose of the CIRS contracts is to:

- hedge against interest rate risk, understood as volatility of interest expense due to changes in the 3M WIBOR rate – exchange of floating interest rate for a fixed rate;
- hedge against currency risk, understood as volatility of the net value of EUR-denominated assets due to EUR/PLN exchange rate movements – offsetting exchange differences.

As at December 31st 2022, Kruk Group companies held open outstanding CIRS contracts with a total volume of PLN 940,000 thousand (the contracts are listed in the section *Interest rate risk hedges*).

Amounts related to open position designated as hedging instruments

PLN thousand

	Carrying amount/fair value of hedging instruments									
	Dec 31 2022				Dec 31 2021					
	Assets	Liabilities	Nominal amount	Change in fair value used to determine ineffectiveness	Assets	Liabilities	Nominal amount	Change in fair value used to determine ineffectiveness	Item in the statement of financial position	Hedge type
Instrument type:										
IRS	18,806	-	255,000 (PLN)	5,003	13,803	-	530,000 (PLN)	32,189	Hedging instruments	Hedge of future cash flows
IRS	15,756	-	210,000 (EUR)	15,756	-	-	-	-	Hedging instruments	Hedge of future cash flows
CIRS	11,529	9,824	940,000 (PLN)	1,705	-	-	-	-	Hedging instruments	Hedge of future cash flows/ Hedge of net investment in a foreign operation
	46,091	9,824		22,464	13,803	-		32,189		

PLN thousand

	Amount of future cash flows as at Dec 31 2022				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	(7,663)	(73,879)	(198,211)	-	-
variable payment PLN	7,663	73,879	198,211	-	-
IRS					
fixed payment EUR sale	(12,744)	(17,827)	(33,414)	(1,000,234)	-
variable payment EUR	12,744	17,827	33,414	1,000,234	-
CIRS					
fixed payment	(33,706)	(32,546)	(136,073)	(966,860)	-
variable payment	8,125	7,790	91,652	998,585	-
	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)	-
variable payment PLN	203,479	77,672	69,721	191,613	-

PLN thousand

Disclosure of the hedged item as at Dec 31 2022

	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)				
	255,000 (PLN)	5,003	18,806	-
Hedge of future cash flows (interest rate risk)				
	210,000 (EUR)	15,756	15,756	
Hedge of net investment in a foreign operation (currency risk)				
	-	-	-	4,082
Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)				
	940,000 (PLN)	1,705	(6,017)	-

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	-
Hedge of net investment in a foreign operation (currency risk)				
	-	-	-	4,082

PLN thousand

Jan 1–Dec 31 2022

Hedge reserve	Hedge of future cash flows (interest rate risk)	Hedge of net investment (currency risk)	Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)	Total hedge reserve
Hedge reserve at beginning of period	13,803	4,082	-	17,885
Measurement of instruments charged to capital reserves	29,660	-	(19,995)	9,665
Cost of hedging			37,109	37,109
Temporary differences/reversal of temporary differences			(3,294)	(3,294)
Amount reclassified to profit or loss during the period	(8,901)	-	(19,837)	(28,738)
- Interest income / (expense)	(8,901)	-	(67)	(8,968)
- Cost of hedging	-	-	(19,770)	(19,770)
Hedge reserve at end of period	34,562	4,082	(6,017)	32,627

Jan 1–Dec 31 2021

Hedge reserve	Hedge of future cash flows (interest rate risk)	Hedge of net investment (currency risk)	Total hedge reserve
Hedge reserve at beginning of 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)
Hedge reserve at end of period	13,803	4,082	17,885

25. Employee benefit obligations and provisions

PLN thousand

	Dec 31 2022	Dec 31 2021
Salaries and wages payable	24,753	19,653
Social benefit obligations	20,983	17,007
Accrued holiday entitlements	8,017	7,127
Personal income tax	5,156	4,239
Special accounts	730	635
	<u>59,639</u>	<u>48,661</u>

Changes in accrued employee benefits

Changes in provisions for accrued holiday entitlements

PLN thousand

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Amount at beginning of period	7,127	7,271
Increase	8,900	6,756
Use	(8,010)	(6,900)
Amount at end of period	<u>8,017</u>	<u>7,127</u>

26. Trade and other payables

PLN thousand

	Dec 31 2022	Dec 31 2021
Trade payables	109,702	122,587
Other liabilities	29,231	15,617
Accrued expenses	5,932	9,695
Deferred income	6,293	7,125
Tax and duties payable	7,113	7,962
	<u>158,271</u>	<u>162,986</u>

Revenue recognised in the reporting period and included in the balance of contract liabilities at the beginning of the period was PLN 823 thousand

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

27. Provisions

PLN thousand

	Dec 31 2022	Dec 31 2021
Provisions for retirement gratuity payments	14,124	16,433
Provision for the loyalty scheme	11,746	11,750
Other provisions	10,561	14,876
	<u>36,431</u>	<u>43,060</u>

Changes in provisions

	Provisions for retirement gratuity payments	Provision for the loyalty scheme	Other provisions
Carrying amount as at Jan 1 2021	13,463	10,652	29,008
Increase / accrual	2,970	1,779	
Provision for possible differences relative to straight-line basis settlement			5,517
Used / reversed	-	(681)	
Reversal of provision for possible differences relative to straight-line basis settlement			(19,649)
Carrying amount as at Dec 31 2021	<u>16,433</u>	<u>11,750</u>	<u>14,876</u>
Carrying amount as at Jan 1 2022	16,433	11,750	14,876
Increase / accrual	-	1,865	
Used / reversed	(2,309)	(1,869)	
Reversal of provision for possible differences relative to straight-line basis settlement			(4,315)
Carrying amount as at Dec 31 2022	<u>14,124</u>	<u>11,746</u>	<u>10,561</u>

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 decisions of the Office of Competition and Consumer Protection and its position on the straight-line method of fee refunds, the Group reassessed the level of 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.

28. 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.

28.1. 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 10% (2021: 5%) of the Group's revenue from credit management services. Receivables from the Group's largest business partner represented 4.2% of total trade receivables as at December 31st 2022 (December 31st 2021: 2.7%). 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 recoveries 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 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. Maximum exposure to credit risk as at the end of the reporting periods is presented below:

<i>PLN thousand</i>	<i>Note</i>	Dec 31 2022	Dec 31 2021
Investments in debt portfolios	15	6,768,087	5,100,176
Loans	15	369,443	316,336
Hedging instruments	25	46,091	13,803
Trade and other receivables, excluding tax receivables	18	29,583	42,019
Cash and cash equivalents	19	202,160	199,164
		7,415,364	5,671,498

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

<i>PLN thousand</i>	Dec 31 2022	Dec 31 2021
Poland	3,229,373	3,090,465
Romania	1,290,022	914,952
Italy	1,566,139	1,037,858
Spain	1,113,564	427,422
Other foreign markets	216,266	200,801
	7,415,364	5,671,498

Credit risk exposure – Investments in debt portfolios

PLN thousand

	Carrying amount as at Dec 31 2022	Carrying amount as at Dec 31 2021
Unsecured retail portfolios	5,798,186	4,159,327
Secured retail portfolios	281,444	308,875
Unsecured corporate portfolios	210,044	185,638
Secured corporate portfolios	478,413	446,336
	6,768,087	5,100,176

Credit risk exposure – Loans

PLN thousand

Risk classification	Carrying amount as at Dec 31 2022				
	Basket 1	Basket 2	Basket 3	POCI loans	TOTAL
Gross carrying amount of loans measured at amortised cost					
low	181,244	103,390	58,243	-	342,877
medium	32,202	12,740	34,974	-	79,916
high	3,256	1,224	13,224	548	18,252
not classified	97	119	75,936	930	77,082
	216,799	117,473	182,377	1,478	518,127
Allowance for expected credit losses					
low	7,190	13,549	36,824	-	57,563
medium	2,177	3,314	24,774	-	30,265
high	398	450	10,174	-	11,022
not classified	4	3	62,267	-	62,274
	9,769	17,316	134,039	-	161,124
Net carrying amount					
low	174,054	89,841	21,419	-	285,314
medium	30,025	9,426	10,200	-	49,651
high	2,858	774	3,050	548	7,230
not classified	93	116	13,669	930	14,808
	207,030	100,157	48,338	1,478	357,003

PLN thousand

Risk classification	Carrying amount as at Dec 31 2021				
	Basket 1	Basket 2	Basket 3	POCI loans	TOTAL
Gross carrying amount of loans measured at amortised cost					
low	172,022	55,687	25,497	-	253,206
medium	29,022	8,081	17,082	-	54,185
high	3,956	1,430	7,965	-	13,351
not classified	64	24	45,690	1,866	47,644
	205,064	65,222	96,234	1,866	368,386
Allowance for expected credit losses					
low	6,950	5,627	17,429	-	30,006
medium	2,195	1,561	12,115	-	15,871
high	510	343	5,737	-	6,590
not classified	2	7	36,696	-	36,705
	9,657	7,538	71,977	-	89,172
Net carrying amount					
low	165,072	50,060	8,068	-	223,200
medium	26,827	6,520	4,967	-	38,314
high	3,446	1,087	2,228	-	6,761
not classified	62	17	8,994	1,866	10,939
	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 2022	Dec 31 2021
Cash in accounts with banks rated below BBB – by Standard & Poor's*	20,612	30,812
Cash in accounts with banks rated BBB or higher – by Standard & Poor's*	181,548	168,352
	202,160	199,164

* 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	Expected credit losses as % of gross carrying amount	Carrying amount as at Dec 31 2022	Carrying amount as at Dec 31 2021
Gross carrying amount of trade and other receivables, excluding tax receivables				
	<1 days		29,583	42,019
	1-90 days		169	169
	>90 days		1,613	1,613
			31,365	43,801
Allowance for expected credit losses				
	<1 days	0%	-	-
	1-90 days	0.70%	169	169
	>90 days	100%	1,613	1,613
			1,782	1,782
Net carrying amount				
	<1 days		29,583	42,019
	1-90 days		-	-
	>90 days		-	-
			29,583	42,019

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

PLN thousand

	Jan 1–Dec 31 2022				Jan 1–Dec 31 2021			
	Basket 1	Basket 2	Basket 3	TOTAL	Basket 1	Basket 2	Basket 3	TOTAL
Loss allowance as at Jan 1	-	169	1,613	1,782	-	446	1,366	1,812
Loss allowance recognised in the period	-	-	-	-	-	82	247	329
Reversal of loss allowance	-	-	-	-	-	(359)	-	(359)
Use of loss allowance	-	-	-	-	-	-	-	-
Transfer between baskets	-	-	-	-	-	-	-	-
Loss allowance at end of period	-	169	1,613	1,782	-	169	1,613	1,782

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 2022					Jan 1–Dec 31 2021				
	Basket 1	Basket 2	Basket 3	POCI loans	TOTAL	Basket 1	Basket 2	Basket 3	POCI loans	TOTAL
Gross carrying amount as at Jan 1	205,064	65,222	96,234	1,866	368,386	111,891	27,677	84,098	1,092	224,758
Purchase	7,980	960	255	1,074	10,269	-	-	-	-	-
Change due to disbursement*	185,467	78,550	36,816	-	300,833	-	-	-	-	-
Change due to repayment*	(175,893)	(55,073)	(37,055)	(1,462)	(269,483)	-	-	-	-	-
Disbursements/repayments	-	-	-	-	-	146,449	17,502	(21,097)	774	143,628
Transfer from basket 1 to basket 2	(26,493)	26,493	-	-	-	(51,590)	51,590	-	-	-
Transfer from basket 1 to basket 3	(10,658)	-	10,658	-	-	(15,094)	-	15,094	-	-
Transfer from basket 2 to basket 1	3,524	(3,524)	-	-	-	13,408	(13,408)	-	-	-
Transfer from basket 2 to basket 3	-	(7,584)	7,584	-	-	-	(18,139)	18,139	-	-
Transfer from basket 3 to basket 1	9	-	(9)	-	-	-	-	-	-	-
Transfer from basket 3 to basket 2	-	7	(7)	-	-	-	-	-	-	-
Change in gross carrying amount in the reporting period	27,799	12,422	67,901	-	108,122	-	-	-	-	-
Gross carrying amount at end of period	216,799	117,473	182,377	1,478	518,127	205,064	65,222	96,234	1,866	368,386

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

PLN thousand	Jan 1–Dec 31 2022				Jan 1–Dec 31 2021			
	Basket 1	Basket 2	Basket 3	TOTAL	Basket 1	Basket 2	Basket 3	TOTAL
Loss allowance as at Jan 1	9,657	7,538	71,977	89,172	11,330	4,082	56,681	72,093
Loss allowance as at acquisition date	1,272	338	129	1,739	-	-	-	-
Change due to disbursement*	8,669	12,557	23,075	44,301	-	-	-	-
Change due to repayment*	(3,733)	(2,827)	(23,200)	(29,760)	-	-	-	-
Transfer from basket 1 to basket 2	(3,489)	3,489	-	-	(5,855)	5,855	-	-
Transfer from basket 1 to basket 3	(3,707)	-	3,707	-	(10,212)	-	10,212	-
Transfer from basket 2 to basket 1	89	(89)	-	-	442	(442)	-	-
Transfer from basket 2 to basket 3	-	(4,959)	4,959	-	-	(12,932)	12,932	-
Transfer from basket 3 to basket 1	1	-	(1)	-	-	-	-	-
Transfer from basket 3 to basket 2	-	4	(4)	-	-	-	-	-
Allowance for expected credit losses recognised in the reporting period	1,010	1,266	53,396	55,672	13,952	10,975	(7,848)	17,079
Loss allowance at end of period	9,769	17,316	134,039	161,124	9,657	7,538	71,977	89,172

**lack of relevant data to create a comparable table for 2021.*

As at December 31st 2022, the gross carrying amount of loans measured at amortised cost was PLN 518,127 thousand (December 31st 2021: PLN 368,386 thousand). The Group recognised an allowance for expected credit losses on loans of PLN 161,124 thousand as at December 31st 2022 (December 31st 2021: PLN 89,172 thousand). The amount of the impairment loss is determined for individual expected loss recognition baskets, 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 31.1% of the gross carrying amount of loans measured at amortised cost (at the end of 2021: 24.2%). The total amount of undiscounted expected credit losses on impaired financial assets due to credit risk was PLN 21,525 thousand in 2022 (2021: PLN 20,452 thousand).

For information on changes in allowances for expected credit losses on purchased debt portfolios measured at amortised cost, see Notes 5 and 15.

28.2. 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 recoveries from debt portfolios.

In accordance with the liquidity management policy adopted by the Group, the following conditions must be met by a Group entity before new debt can be incurred:

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

Exposure to liquidity risk

As at Dec 31 2022

PLN thousand

	Carrying amount	Undiscounted 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*	6,768,087	13,764,663	1,109,132	1,072,582	1,979,975	4,371,950	5,231,024
Loans advanced*	369,443	490,554	188,793	107,084	113,785	52,962	27,930
Trade and other receivables, excluding tax receivables	29,583	29,583	29,583	-	-	-	-
Cash and cash equivalents	202,160	202,160	202,160	-	-	-	-
Secured borrowings	(2,494,856)	(3,095,404)	(152,934)	(86,748)	(256,371)	(2,549,374)	(49,977)
Unsecured bonds in issue	(1,382,015)	(1,928,811)	(67,451)	(132,349)	(175,021)	(1,195,002)	(358,988)
Lease liabilities	(68,923)	(70,960)	(17,216)	(14,568)	(24,141)	(12,321)	(2,714)
Trade and other payables	(138,933)	(138,933)	(138,933)	-	-	-	-
	3,284,546	9,252,852	1,153,134	946,001	1,638,227	668,215	4,847,275

*Cash flows based on estimates.

As at Dec 31 2021

PLN thousand

	Carrying amount	Undiscounted 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 advanced*	316,336	402,742	164,602	93,627	105,605	38,908	-
Trade and other receivables, excluding tax receivables	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 2022 and December 31st 2021, 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 2022, the undrawn revolving credit facility limit available to the Group was PLN 382,997 thousand (December 31st 2021: PLN 794,887 thousand). The limit is available until December 20th 2027.

The Group companies did not provide any guarantees to third parties.

For information on liquidity risk of hedging instruments, see Note 24.

The liquidity concentration risk is defined by the Group as the risk arising from cash flows under individual financial instruments.

28.3. 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 2022, financial assets denominated in foreign currencies accounted for 55% of total assets, while liabilities denominated in foreign currencies represented 25% of total equity and liabilities (December 31st 2021: 44% and 15%, respectively).

The Group uses financial instruments to hedge its interest rate risk and currency risk (see Notes 3.4.5 and 24).

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

PLN thousand	Dec 31 2022					Dec 31 2021				
	Exposure to currency risk									
	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL
Trade and other receivables	-	3,357	47	-	3,405	-	1,392	226	-	1,618
Investments	-	272	1,216,137	16,618	1,233,027	-	310	780,398	21,680	802,388
Cash	38	2,615	1,853	2,109	6,616	694	7,679	10,511	661	19,545
Borrowings, debt securities and leases	-	(167,916)	-	-	(167,916)	-	(192,572)	-	-	(192,572)
Trade and other payables	(871)	(7,756)	(20,994)	-	(29,622)	(310)	(13,361)	(2,293)	-	(15,964)
Currency risk exposure – items affecting profit or loss	(833)	(169,428)	1,197,043	18,728	1,045,510	384	(196,552)	788,842	22,341	615,015
Trade and other receivables	-	5,856	35,613	(2,766)	38,703	-	17,460	16,153	-	33,613
Investments	-	2,600,799	58,983	138,799	2,798,581	-	1,413,091	112,484	115,930	1,641,505
Cash	-	109,960	14,690	8,859	133,509	-	61,719	21,571	8,217	91,507
Borrowings, debt securities and leases	-	(1,696,785)	(7,597)	(705)	(1,705,087)	-	(575,655)	(3,912)	(1,344)	(580,911)
Trade and other payables	-	(18,656)	(13,925)	(1,768)	(34,349)	-	(84,885)	(16,386)	(3,251)	(104,522)
Currency risk exposure – items affecting other comprehensive income	-	1,001,173	87,765	142,418	1,231,357	-	831,730	129,911	119,552	1,081,192
Exposure to currency risk	(833)	831,745	1,284,809	161,146	2,276,866	384	635,178	918,752	141,893	1,696,207
Hedge effect		(940,000)			(940,000)					-
Currency risk exposure after hedging	(833)	(108,255)	1,284,809	161,146	1,336,866	384	635,178	918,752	141,893	1,696,207

PLN thousand

Dec 31 2022

Dec 31 2021

	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	-	336	5	-	341	-	139	23	-	162
Investments	-	27	121,614	1,662	123,303	-	31	78,040	2,168	80,239
Cash	4	262	185	211	662	69	768	1,051	66	1,954
Borrowings, debt securities and leases	-	(16,792)	-	-	(16,792)	-	(19,257)	-	-	(19,257)
Trade and other payables	(87)	(776)	(2,099)	-	(2,962)	(31)	(1,336)	(229)	-	(1,596)
Effect on statement of profit or loss	(83)	(16,943)	119,705	1,873	104,552	38	(19,655)	78,885	2,234	61,502
Trade and other receivables	-	586	3,561	(277)	3,870	-	1,746	1,615	-	3,361
Investments	-	260,080	5,898	13,880	279,858	-	141,309	11,248	11,593	164,150
Cash	-	10,996	1,469	886	13,351	-	6,172	2,157	822	9,151
Borrowings, debt securities and leases	-	(169,679)	(760)	(71)	(170,510)	-	(57,566)	(391)	(134)	(58,091)
Trade and other payables	-	(1,866)	(1,393)	(177)	(3,436)	-	(8,489)	(1,639)	(325)	(10,453)
Effect on other comprehensive income	-	100,117	8,775	14,241	123,133	-	83,172	12,990	11,956	108,118
Exposure to currency risk	(83)	83,174	128,480	16,114	227,685	38	63,518	91,875	14,189	169,620
Hedge effect	-	(94,000)	-	-	(94,000)	-	(19,000)	-	-	(19,000)
Currency risk exposure after hedging	(83)	(10,826)	128,480	16,114	133,685	38	44,518	91,875	14,189	150,620

As at December 31st 2022, a 10% depreciation of the Polish currency against the euro would result in a PLN 16,943 thousand decrease in profit and a PLN 83,174 thousand increase in equity. As at December 31st 2022, a 10% appreciation of the Polish currency against the euro would result in a PLN 16,943 thousand increase in profit and a PLN 83,174 thousand decrease 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 2022	Jan 1–Dec 31 2021	Dec 31 2022	Dec 31 2021
EUR 1	4.6883	4.5775	4.6899	4.5994
USD 1	4.4679	3.8757	4.4018	4.0600
RON 1	0.9501	0.9293	0.9475	0.9293
CZK 1	0.1910	0.1785	0.1942	0.1850

*Average exchange rates were calculated as the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period.

Exposure to interest rate risk

Structure of interest-bearing financial instruments as at the end of the reporting period:

PLN thousand	Carrying amount	
	Dec 31 2022	Dec 31 2021
Fixed-rate financial instruments		
Financial assets	7,369,273	5,657,695
Financial liabilities	(317,046)	(503,476)
	<u>7,052,227</u>	<u>5,154,219</u>
Hedge effect (nominal amount)	<u>(2,179,879)</u>	<u>(530,000)</u>
	<u>4,872,348</u>	<u>4,624,219</u>
Variable-rate financial instruments		
Financial assets	46,091	13,803
Financial liabilities	(3,777,505)	(2,503,748)
	<u>(3,731,414)</u>	<u>(2,489,945)</u>
Hedge effect (nominal amount)	<u>2,179,879</u>	<u>530,000</u>
	<u>(1,551,535)</u>	<u>(1,959,945)</u>

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	
	100 bps increase	100 bps decrease
Dec 31 2022		
Variable-rate financial assets	461	(461)
Variable-rate financial liabilities	(37,775)	37,775
Dec 31 2021		
Variable-rate financial assets	138	(138)
Variable-rate financial liabilities	(25,037)	25,037

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 2022		Dec 31 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value				
Hedging instruments (IRS)	34,562	34,562	13,803	13,803
Hedging instruments (CIRS)	1,705	1,705	-	-
Loans	12,440	12,440	37,123	37,123
	48,707	48,707	50,926	50,926
Financial assets and liabilities other than measured at fair value				
Investments in debt portfolios	6,768,087	6,358,969	5,100,176	4,835,016
Loans	357,003	346,876	279,213	270,034
Trade and other receivables, excluding tax receivables	42,019	42,019	29,583	29,583
Trade and other payables	(138,204)	(138,204)	(138,933)	(138,933)
Secured borrowings	(2,494,856)	(2,498,822)	(1,495,902)	(1,502,198)
Liabilities under debt securities (unsecured)	(1,382,015)	(1,366,416)	(1,304,759)	(1,330,251)
	3,152,034	2,744,422	2,469,378	2,163,251

Interest rates used for fair value estimation

	Dec 31 2022	Dec 31 2021
Investments in debt portfolios	0.00% - 216.23%	-0.01% - 216.23%
Loans	10.20% - 57.02%	14.64% - 88.69%
Secured borrowings	4.08% - 9.78%	4.65% - 5.04%

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 2021–2022, no transfers were made between the levels.

Hierarchy of financial instruments – Level 1

PLN thousand

	Level 1	
	Carrying amount	Fair value
As at Dec 31 2021		
Liabilities under debt securities (unsecured)	(1,304,759)	(1,330,251)
As at Dec 31 2022		
Liabilities under debt securities (unsecured)	(1,382,015)	(1,366,416)

The fair value of financial liabilities under debt securities is determined based on their prices on the Catalyst market as at the last day of the reporting period.

Hierarchy of financial instruments – Level 2

PLN thousand

	Level 2	
	Carrying amount	Fair value
As at Dec 31 2021		
Hedging instruments (IRS)	13,803	13,803
Trade and other receivables, excluding tax receivables	29,583	29,583
Trade and other payables	(138,933)	(138,933)
Secured borrowings	(1,495,902)	(1,502,198)
As at Dec 31 2022		
Hedging instruments (IRS)	34,562	34,562
Hedging instruments (CIRS)	1,705	1,705
Trade and other receivables, excluding tax receivables	42,019	42,019
Trade and other payables	(138,204)	(138,204)
Secured borrowings	(2,494,856)	(2,498,822)

The fair value of derivative and hedging instruments is determined on the basis of future cash flows from the 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 under borrowings is determined on the basis of future cash flows from the 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. For the purpose of fair value calculation the Group uses margin rates from the most recent credit facility agreement.

For bank borrowings, lease liabilities and trade payables, the Group determines fair value using Level 2 inputs.

Hierarchy of financial instruments – Level 3

PLN thousand

	Level 3	
	Carrying amount	Fair value
As at Dec 31 2021		
Investments in debt portfolios	5,100,176	4,835,016
Loans	316,336	307,157
As at Dec 31 2022		
Investments in debt portfolios	6,768,087	6,358,969
Loans	369,443	359,316

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 current risk free rate and the current 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 estimated remaining recoveries on 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.

28.4. 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 2022, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 32.83% (2021: 36.45%)

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and leases to total equity, was 1.21 as at December 31st 2022 (December 31st 2021: 1.10).

As required under the Anti-Usury Act of December 18th 2020, the Management Board of the Parent aims to maintain the share capital of lending institutions in the KRUK Group at the minimum level of PLN 1,000 thousand.

In the reporting period from January 1st to December 31st 2022, there were no changes in the Group's capital management policy.

29. 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:

<i>PLN thousand</i>	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Base pay/ managerial contract (gross)	7,388	6,313
Additional benefits	99	83
Share-based payments (Note 30)	27,694	18,576
	35,181	24,972

Remuneration of members of the Supervisory Board

Remuneration of members of the Parent's Supervisory Board:

<i>PLN thousand</i>	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Base pay (gross)	1,151	956
Additional benefits	22	15
	1,173	971

Other transactions with management personnel

As at December 31st 2022, members of the Management Board and persons closely related to them jointly held 10.5% of the total voting rights at the Parent's General Meeting (December 31st 2021: 10.0%).

In 2022 and 2021, there were no material 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.

30. Share-based payments

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

PLN thousand

Period ending	Value of benefits granted
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Dec 31 2017	10,147
Dec 31 2018	8,118
Dec 31 2019	9,658
Dec 31 2020	(1,156)
Dec 31 2021	18,576
Dec 31 2022	27,694
Total	109,695

The management stock option plans are described in note 21.

31. Auditor's fees

Auditor's fees are presented below:

PLN thousand, net

	Dec 31 2022	Dec 31 2021
Audit of financial statements	2,226	1,867
Other assurance services, including review of financial statements	504	270
	2,730	2,137

32. Other notes

32.1. 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 2022	Jan 1–Dec 31 2021
Change in investments in debt portfolios in the statement of financial position	(1,667,911)	(1,116,096)
Effect of exchange differences on translating foreign operations	59,548	(10,172)
Change in investments in debt portfolios in the statement of cash flows	(1,608,363)	(1,126,268)

32.2. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance

Impact of inflation on the business of the Group

Inflation has an effect on the KRUK Group's costs, in particular on labour costs and indirectly, through higher interest rates, on finance costs. The impact of inflation on revenues is difficult to assess and can be:

- positive, if indebted persons earn regular income its nominal amount increases, enabling them to repay a larger portion of their debt to the KRUK Group; inflation also causes the nominal amount of the debt to increase,
- negative, if inflation leads to an economic downturn, lower incomes, higher unemployment, and debtors ceasing to repay their debt.

Russia's invasion of Ukraine

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 Group expects the implications of the conflict for its operations will be indirect and limited.

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

32.3. Risk of negative impacts on the natural environment

Environmental impact risks primarily relate to the Group's potential negative effects on the environment and climate through its own operations, the products and services it provides, including project financing and management of climate risks, which could be transformational for the Group. Understanding its environmental impact and stakeholders' expectations, the KRUK Group has decided to define its environmental objectives and incorporate them into its Environmental, Social, and Governance (ESG) strategy, which is part of its business strategy. The objectives are based on the UN Sustainable Development Goals and on the European Green Deal.

In line with the Scope 1 and Scope 2 guidance of GHG Protocol, an action plan has been implemented in each country where the KRUK Group is present to achieve 70% reduction in carbon emissions by 2040, including by improving the efficiency of the car fleet, using renewable energy sources, and cutting energy consumption in office buildings. Given the new obligations imposed by the Corporate Sustainable Reporting Directive, the KRUK Group intends to meet the Scope 3 objectives of GHG Protocol with respect to its business model and include its value chain in the calculations.

As part of its ESG strategy, by 2026 the Group plans to begin reporting emissions for each of its main business processes. In order to achieve all of its strategic environmental objectives, the KRUK Group has committed to continuously raising the awareness of its employees, suppliers and the public in the area of environmental protection and protecting and improving the condition of the natural environment.

Drawing on the Company's know-how and expertise in debt, since 2019 the KRUK Group has been taking consistent measures to draw public attention to the problem of ecological debt and excessive consumerism, highlighting the analogy between financial and ecological debts. A good occasion to raise this problem is the Earth Overshoot Day, on which the Group issues various press releases concerning the consequences of Poles' excessive consumerism, based on public surveys commissioned by the Group. In the run-up to the event, KRUK S.A. commissioned an online survey – 'Economic and Environmental Attitudes among Poles 2022' Its environmental message reached over 31 thousand unique respondents.

In 2022, KRUK S.A. became a member of the United Nations Global Compact's (UNGC) Climate Positive initiative, which aims to equip businesses with expert knowledge on combating climate change, lowering their carbon footprint, and enhancing environmental awareness. As a member of the initiative, the Group has received an invitation to join the UNGCNP Business Council. For further details on how the Group manages its environmental and climate impacts, please refer to the Directors' Report on the operations of the KRUK Group and KRUK S.A.

At this time, no balance sheet items have been identified whose valuation would be significantly affected by the analysed climate risks. Climate risks and opportunities will be defined in 2023 in accordance with the TCFD standard. Cooperation with an external advisor has been established for this purpose.

33. Contingent liabilities

Security created over the Group's assets as at December 31st 2022 is presented below.

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Guarantees provided/promissory notes issued				
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 119,700 thousand	No later than July 3rd 2030	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	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
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 May 20th 2031	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between Kruk S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., 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 589,500 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 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 33,480 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 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 68,640 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
Surety for PROKURA NS FIZ's liabilities towards Pekao S.A. under the overdraft facility agreement of February 1st 2022 between PROKURA NS FIZ, KRUK S.A. and Pekao S.A.	Pekao S.A.	PLN 120,000 thousand	No later than January 31st 2031	Prokura NS FIZ's failure to pay amounts owed to the bank under the overdraft facility agreement

Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of August 22nd 2022 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 75,240 thousand	No later than August 21st 2030	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
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Surety for InvestCapital Ltd's obligations to BANKINTER S.A. of Madrid, under the direct debit collection management contract between BANKINTER S.A. and InvestCapital Ltd. dated July 7th 2022.	BANKINTER S.A.	EUR 1,600 thousand	Until all obligations under the direct debit collection management contract of July 7th 2022 are satisfied.	InvestCapital Ltd's failure to pay amounts due to the Bank under the direct debit collection management contract of July 7th 2022.
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Guarantees obtained				
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 300 thousand and PLN 215 thousand	No later than December 30th 2023	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee

After the reporting date, following termination by mutual consent of the parties of a credit facility agreement executed on December 20th 2018, as amended, by KRUK S.A. and its subsidiary PROKURA NS FIZ, with ING Bank Śląski S.A., the surety provided by KRUK S.A. for Prokura NS FIZ (the borrower) expired on February 27th 2023.

After the reporting date, on 2nd March 2023, KRUK S.A. and its subsidiaries have executed with a syndicate of banks, comprising DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A. and Bank Handlowy w Warszawie S.A. an annex to the revolving multi-currency credit facility agreement. The Annex provides for an increase in the credit facility limit up to EUR 446 000 thousand. Following the execution of the Annex, the amount of the surety provided by the Company and of its declaration of voluntary submission to enforcement will amount to EUR 669 000 thousand each. No other terms of the Credit Facility agreement have been materially amended.

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

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 (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

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

34. Events subsequent to the reporting date

- On January 3rd 2023, KRUK S.A., CRIF A.G. of Zurich, Switzerland and CRIF sp. z o.o. of Kraków executed an agreement to sell all shares in ERIF Biuro Informacji Gospodarczej S.A. (ERIF) and ERIF Business Solutions spółka z o.o. (EBS).
- On January 4th 2023, as part of the First Prospectus-Exempt Bond Issue Programme, Series AL3 unsecured bonds with a total nominal value of PLN 120,000 thousand were issued. 120,000 bonds were allocated to investors, each with a nominal value equal to the issue price of PLN 1,000.

- On February 20th 2023, as part of the Ninth Bond Issue Programme, Series AN3 series unsecured bonds were issued with a total nominal value of PLN 50,000 thousand. 500 thousand were allocated to investors, each with a nominal value equal to the issue price of PLN 100.

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*

Monika Grudzień-Wiśniewska

Person keeping the accounting records

Hanna Stempień

Prepared by

Wrocław, March 8th 2023