



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period January 1st –
March 31st 2020

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I. Financial highlights

Financial highlights	PLN '000		EUR '000	
	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
For the period				
Revenue	199,286	305,711	45,331	71,131
Operating profit	(7,036)	126,286	(1,600)	29,384
Profit before tax	(53,840)	94,099	(12,247)	21,895
Net profit attributable to owners of the Parent	(62,156)	97,832	(14,138)	22,763
Net cash from operating activities	213,230	50,813	48,502	11,823
Purchase of debt portfolios at prices as per agreement	(57,008)	(179,480)	(12,967)	(41,761)
Cash recoveries	477,200	426,682	108,547	99,278
Net cash from investing activities	(2,464)	(6,274)	(560)	(1,460)
Net cash from financing activities	(124,967)	611	(28,426)	142
Net change in cash	85,799	45,152	19,516	10,506
Diluted earnings per share (PLN/EUR)	(3.22)	5.08	(0.73)	1.18
Average number of shares ('000)	18,972	18,887	18,972	18,887
Earnings per share (PLN/EUR)	(3.27)	5.18	(0.74)	1.21
	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2020 unaudited	Dec 31 2019
As at				
Total assets	4,836,080	4,839,914	1,062,338	1,136,530
Non-current liabilities	2,345,758	2,468,691	508,013	579,709
Current liabilities	570,045	412,130	125,221	96,778
Equity	1,953,406	1,959,093	429,103	460,043
Share capital	18,972	18,972	4,168	4,455
Book value per ordinary share	102.96	103.26	22.62	24.25

The financial highlights have been translated into the euro as follows:

Items of or related to the statement of profit or loss and the statement of cash flows have been translated using the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period; the exchange rates thus calculated are:

for the reporting period **4.3963**
for the comparative period **4.2978**

Items of or related to the statement of financial position have been translated using the mid rate quoted by the National Bank of Poland for the end of the reporting period; the exchange rates thus calculated are:

at the end of the reporting period **4.5523**
at end of the comparative period **4.2585**

II. Consolidated statement of financial position

As at March 31st 2020

PLN '000

	Note	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Assets				
Cash and cash equivalents	10.17	236,073	150,274	192,454
Trade receivables	10.16	19,330	23,988	30,661
Investments	9	4,307,459	4,411,438	4,153,182
Investment property	9	37,419	34,655	34,783
Other receivables	10.16	38,613	31,852	25,498
Inventories		19	37	142
Property, plant and equipment	10.14	90,666	82,973	88,313
Goodwill	10.15	50,393	47,206	62,010
Other intangible assets		49,615	50,252	34,852
Derivatives		-	4,219	2,034
Other assets		6,493	3,020	2,687
Total assets		4,836,080	4,839,914	4,626,616
Equity and liabilities				
Liabilities				
Derivatives	10.11	25,095	3,924	4,304
Trade and other payables	10.19	139,712	101,303	148,065
Employee benefit obligations	10.18	54,002	49,539	52,740
Income tax payable		9,245	6,673	1,722
Borrowings, debt securities and leases	10.10	2,634,535	2,705,727	2,587,973
Provisions	10.20	12,052	7,156	-
Deferred tax liability	10.9	8,034	6,498	3,922
Total liabilities		2,882,674	2,880,821	2,798,726
Equity				
Share capital		18,972	18,972	18,887
Share premium		307,192	307,192	300,097
Cash flow hedging reserve		(11,706)	78	(3,674)
Exchange differences on translating foreign operations		43,227	(30,219)	(59,033)
Other capital reserves		100,015	104,582	97,219
Retained earnings		1,495,665	1,557,821	1,473,916
Equity attributable to owners of the Parent		1,953,365	1,958,426	1,827,412
Non-controlling interests		41	667	478
Total equity		1,953,406	1,959,093	1,827,890
Total equity and liabilities		4,836,080	4,839,914	4,626,616

III. Consolidated statement of profit or loss

For the reporting period from January 1st to March 31st 2020

PLN '000

	Note	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Continuing operations			
Revenue	10.1	199,286	305,711
including interest income on debt portfolios calculated using the effective interest rate method		257,843	242,750
including interest income on other financial instruments calculated using the effective interest rate method		33,480	4,365
Other income	10.2	1,020	859
		200,306	306,570
Employee benefits expense	10.4	(84,941)	(83,409)
Depreciation and amortisation		(11,652)	(10,110)
Services	10.3	(34,976)	(30,479)
Other expenses	10.5	(75,773)	(56,286)
		(207,343)	(180,284)
Operating profit/(loss)		(7,036)	126,286
Finance income	10.6	29	28
Finance costs	10.7	(46,833)	(32,215)
Net finance costs		(46,804)	(32,187)
Profit/(loss) before tax		(53,840)	94,099
Income tax	10.9	(8,276)	3,815
Net profit/(loss) for the period		(62,116)	97,914
Net profit/(loss) attributable to:			
Owners of the Parent	10.12	(62,156)	97,832
Non-controlling interests		40	82
Net profit/(loss) for the period		(62,116)	97,914
Earnings/(loss) per share			
Basic (PLN)		(3.27)	5.18
Diluted (PLN)		(3.22)	5.08

IV. Consolidated statement of comprehensive income

For the reporting period from January 1st to March 31st 2020

PLN '000

	Note	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Net profit/(loss) for the period		(62,116)	97,914
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		73,446	(5,264)
Cash flow hedges		(11,784)	195
Items that will not be reclassified subsequently to profit or loss		-	-
Income tax on other comprehensive income		-	-
Other comprehensive income for the period, net		61,662	(5,069)
Total comprehensive income for the period		(455)	92,845
Total comprehensive income attributable to:			
Owners of the Parent		(495)	92,763
Non-controlling interests		40	82
Total comprehensive income for the period		(455)	92,845
Comprehensive income/ (loss) per share			
Basic (PLN)		(0.02)	4.92
Diluted (PLN)		(0.02)	4.82

V. Consolidated statement of changes in equity

For the reporting period ended March 31st 2019 (PLN '000)

	Note	Share capital	Share premium	Cash flow hedging reserve	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Equity as at Jan 1 2019		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Comprehensive income for the period								-		-
Net profit for the period		-	-		-	-	97,832	97,832	82	97,914
Other comprehensive income								-		-
- Exchange differences on translating foreign operations		-	-	-	(5,264)	-	-	(5,264)	-	(5,264)
- Measurement of hedging instruments		-	-	195	-	-	-	195	-	195
Total other comprehensive income		-	-	195	(5,264)	-	-	(5,069)	-	(5,069)
Total comprehensive income for the period		-	-	195	(5,264)	-	97,832	92,763	82	92,845
Contributions from and distributions to owners								-		-
- Payment of dividends								-		-
- Share-based payments		-	-	-	-	2,295	-	2,295	-	2,295
- Issue of shares		-	-	-	-	-	-	-	-	-
Total contributions from and distributions to owners		-	-	-	-	2,295	-	2,295	-	2,295
Total equity as at Mar 31 2019		18,887	300,097	(3,674)	(59,033)	97,219	1,473,916	1,827,412	478	1,827,890

Interim condensed consolidated financial statements
for the period from January 1st 2020 to March 31st 2020

For the reporting period ended December 31st 2019 [PLN
'000]

Note	Share capital	Share premium	Cash flow hedging reserve	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Equity as at Jan 1 2019	18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Comprehensive income for the period									
Net profit for the period	-	-	-	-	-	276,390	276,390	667	277,057
Other comprehensive income									
- Exchange differences on translating foreign operations	-	-	-	23,550	-	-	23,550	-	23,550
- Measurement of hedging instruments	-	-	3,947	-	-	-	3,947	-	3,947
Total other comprehensive income	-	-	3,947	23,550	-	-	27,497	-	27,497
Total comprehensive income for the period	-	-	3,947	23,550	-	276,390	303,887	667	304,554
Contributions from and distributions to owners									
- Payment of dividends	-	-	-	-	-	(94,653)	(94,653)	(396)	(95,049)
- Issue of shares	-	7,095	-	-	-	-	7,095	-	7,095
- Share-based payments	85	-	-	-	9,658	-	9,743	-	9,743
Total contributions from and distributions to owners	85	7,095	-	-	9,658	(94,653)	(77,815)	(396)	(78,211)
Total equity as at Dec 31 2019	18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,425	667	1,959,093

Interim condensed consolidated financial statements
for the period from January 1st 2020 to March 31st 2020

For the reporting period ended March 31st 2020 (PLN '000)

	Share capital	Share premium	Cash flow hedging reserve	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non- controlling interests	Total equity
Note									
Equity as at Jan 1 2020	18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,425	667	1,959,093
Comprehensive income for the period									
Net profit for the period	-	-	-	-	-	(62,156)	(62,156)	40	(62,116)
Other comprehensive income									
- Exchange differences on translating foreign operations	-	-	-	73,446	-	-	73,446	-	73,446
- Measurement of hedging instruments	-	-	(11,784)	-	-	-	(11,784)	-	(11,784)
Total other comprehensive income	-	-	(11,784)	73,446	-	-	61,662	-	61,662
Total comprehensive income for the period	-	-	(11,784)	73,446	-	(62,156)	(495)	40	(454)
Contributions from and distributions to owners									
- Payment of dividends	-	-	-	-	-	-	-	(667)	(667)
- Issue of shares	-	-	-	-	-	-	-	-	-
- Share-based payments	-	-	-	-	(4,567)	-	(4,567)	-	(4,567)
Total contributions from and distributions to owners	-	-	-	-	(4,567)	-	(4,567)	(667)	(5,234)
Total equity as at Mar 31 2020	18,972	307,192	(11,706)	43,227	100,015	1,495,665	1,953,365	41	1,953,406

VI. Consolidated statement of cash flows

For the reporting period from January 1st to March 31st 2020

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Cash flows from operating activities		
Net profit for the period	(62,116)	97,914
<i>Adjustments</i>		
Depreciation of property, plant and equipment	8,680	7,076
Amortisation of intangible assets	2,972	3,034
Net finance costs	50,320	20,912
(Gain)/loss on sale of property, plant and equipment	(383)	(318)
Equity-settled share-based payments	(4,567)	2,295
Income tax	8,276	(3,815)
Change in loans	(17,983)	(1,389)
Change in investments in debt portfolios and property	190,032	(36,259)
Change in inventories	18	55
Change in trade and other receivables	(1,147)	(3,539)
Change in other assets	(3,473)	99
Change in trade and other payables	40,629	(27,990)
Change in employee benefit obligations	4,463	8,062
Change in provisions	4,896	-
Share of minority profits	(40)	-
Income tax paid	(7,345)	(15,323)
Net cash from operating activities	213,230	50,813
Cash flows from investing activities		
Interest received	29	28
Sale of intangible assets and property, plant and equipment	923	394
Purchase of intangible assets and property, plant and equipment	(3,416)	(6,696)
Net cash from investing activities	(2,464)	(6,274)
Cash flows from financing activities		
Proceeds from issue of debt securities	-	140,000
Increase in borrowings	185,135	270,783
Repayment of borrowings	(276,053)	(379,894)
Payments under lease contracts	(7,116)	(6,536)
Dividends paid	(667)	-
Interest paid	(26,266)	(23,742)
Net cash from financing activities	(124,967)	611
Total net cash flows	85,799	45,151
Cash and cash equivalents at beginning of period	150,274	147,302
Cash and cash equivalents at end of period	236,073	192,454

VII. Notes to the interim condensed consolidated financial statements

1. Organisation of the KRUK Group

Parent

Name:

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

Registered office:

ul. Wołowska 8

51-116 Wrocław, Poland

Registration in the National Court Register:

District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland

Date of registration: September 7th 2005

Registration number: KRS NO. 0000240829

Principal business activities of the Parent and its subsidiaries

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

These interim condensed consolidated financial statements for the reporting period January 1st – March 31st 2020 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

KRUK S.A. is the Parent of the Group.

As at March 31st 2020, the Management Board of the Parent consisted of:

Piotr Krupa	President of the Management Board
Agnieszka Kułton	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska	Member of the Management Board
Michał Zasępa	Member of the Management Board

As at the date of issue of this interim report, the Management Board of the Parent consisted of:

Piotr Krupa	President of the Management Board
Agnieszka Kułton	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska	Member of the Management Board
Michał Zasępa	Member of the Management Board

In Q1 2020 and by the issue date of this interim report, the composition of the Management Board of KRUK S.A. did not change, however:

- On April 30th 2020, Ms Agnieszka Kułton - Member of the Management Board, Chief Debt Management Officer, resigned as Member of the Management Board with effect as of May 28th 2020, citing health reasons. Accordingly, the President of the Management Board of KRUK S.A. requested that the Supervisory Board of KRUK S.A. appoints Mr Piotr Kowalewski as Member of the Management Board, Chief Debt Management Officer, with effect as of May 29th 2020.
- On April 30th 2020, Ms Iwona Słomska - Member of the Management Board, Marketing, PR and Human Resources, resigned as Member of the Management Board with effect as of July 31st 2020, citing important personal reasons. Accordingly, the President of the Management Board of KRUK S.A. requested that the Supervisory Board of KRUK S.A. sets the number of members of the Company's Management Board at four, effective as of to August 1st 2020.

As at March 31st 2020, the composition of the Parent's Supervisory Board was as follows:

Piotr Stępnia	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Mateusz Melich	Member of the Supervisory Board
Ewa Radkowska-Świętoń	Member of the Supervisory Board
Piotr Szczepiórkowski	Member of the Supervisory Board

In Q1 2020 and by the issue date of this interim report, the composition of the Supervisory Board of KRUK S.A. did not change.

KRUK Group

As at the issue date of this report, the Group comprised KRUK S.A. of Wrocław and 23 subsidiaries:

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna Raven P. Krupa sp.k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK Romania S.r.l	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	Wrocław	Fund based on professional risk assessment and credit management methodologies; all certificates issued by the fund are held indirectly or directly by KRUK S.A.
Secapital Polska sp. z o.o.	Wrocław	Management of securitised debt

ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
KRUK Česká a Slovenská republika s.r.o.	Hradec Králové	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
InvestCapital Ltd.	Malta	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l.	Milan	Credit management services, collection of debt purchased by the KRUK Group companies in Italy and other European countries
ItaCapital S.r.l.	Milan	Investing in debt or debt-backed assets
KRUK España S.L.	Madrid	Credit management services, collection of debt purchased by the KRUK Group companies in Spain and other European countries, debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Fund based on professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Presco Investments S.a r.l.
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Bison NS FIZ (closed-end investment fund)	Wrocław	Fund based on professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.
Wonga.pl sp. z o.o.	Warsaw	Operating in the consumer lending market

Interim condensed consolidated financial statements
for the period from January 1st 2020 to March 31st 2020

All the subsidiaries listed above are included in these condensed consolidated financial statements as at March 31st 2020 and for the period January 1st – March 31st 2020.



The Company has twelve field offices located in Warsaw, Gdańsk, Elbląg, Toruń, Katowice, Łódź, Kraków, Rzeszów, Poznań, Szczecin, Szczawno-Zdrój and Piła.

The ownership interests held by the Parent in the subsidiaries as at the date of this report were as follows:

	Country	Ownership interest (%)	
		Mar 31 2020	Dec 31 2019
SeCapital S.à r.l. ¹	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o.	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l	Romania	100%	100%
Kancelaria Prawna Raven P. Krupa Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ ¹	Poland	100%	100%
InvestCapital Ltd ¹	Malta	100%	100%
RoCapital IFN S.A.	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l. ²	Luxembourg	100%	100%
Presco Investments S.a.r.l. ¹	Luxembourg	100%	100%
Presco Investments I NS FIZ ¹	Poland	100%	100%
BISON NS FIZ ¹	Poland	100%	100%
Elleffe Capital S.r.l. ¹	Italy	100%	100%
Corbul S.r.l. ³	Romania	-	-
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	100%

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

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

³ The Parent controls the company through a personal link.

2. Reporting period

The reporting period is the period from January 1st 2020 to March 31st 2020 and the comparative period is the period from January 1st 2019 to March 31st 2019. The consolidated statement of financial position was prepared as at March 31st 2020 and the comparative data was presented as at March 31st 2019 and December 31st 2019. The consolidated statement of changes in equity was prepared for the period from January 1st 2020 to March 31st 2020 and the comparative periods are from January 1st 2019 to March 31st 2019 and from January 1st 2019 to December 31st 2019.

The presented data has not been audited.

These financial statements do not contain all the information required to prepare full-year financial statements and should therefore be read in conjunction with the Group's consolidated financial statements prepared as at and for the year ended December 31st 2019.

3. Statement of compliance

The KRUK Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union (the „EU-IFRS”).

These interim condensed consolidated financial statements of the Group have been prepared in the condensed form in accordance with IAS 34 and the accounting standards applicable to interim financial statements, as endorsed by the European Union, published and effective at the time of preparation of these financial statements.

In the opinion of the Management Board, there are no circumstances which could pose a significant threat to the Group companies continuing as going concerns. Therefore, these interim condensed consolidated financial statements have been prepared under the assumption that the companies will continue as going concerns in the foreseeable future, that is for 12 months from the reporting date.

These interim condensed financial statements were authorised for issue by the Parent’s Management Board (the „Management Board”) on May 28th 2020.

All amounts in these interim condensed consolidated financial statements are presented in the Polish złoty, rounded to the nearest thousand. The Polish złoty is the functional currency of the Parent.

4. Significant accounting policies

The interim condensed consolidated financial statements have been prepared based on the following accounting concepts:

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

The accounting policies applied to prepare these condensed interim financial statements are consistent with those applied to prepare the most recent full-year consolidated financial statements as at and for the year ended December 31st 2019.

These financial statements comply with the requirements of all International Accounting Standards, International Financial Reporting Standards and related interpretations endorsed by the European Union, which have been issued and are effective for annual periods beginning on or after January 1st 2020.

Amendments to current standards and interpretations

New standards, interpretations and amendments to published standards which were endorsed and published by the European Union and took effect as of/after January 1st 2020:

Standards and Interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	<ul style="list-style-type: none"> The amendments align and clarify the definition of 'material' and set out guidelines intended to increase the consistency of application of this concept in international financial reporting standards. 	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2020
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures	<p>The amendments are mandatory and apply to all hedging relationships affected by uncertainty due to the reform of interest rate indices. The amendments introduce a temporary exemption from the application of certain hedge accounting requirements in such a way that the reform of interest rate indices does not result in hedge accounting. Key exemptions resulting from the Amendment relate to:</p> <ul style="list-style-type: none"> requirement that flows are 'highly probable' risk components prospective evaluation retrospective effectiveness test (for IAS 39) reclassification of cash flow hedge reserve. <p>The amendments also require that entities disclose to investors additional information on hedging relationships that affect the above uncertainties.</p>	The Group expects that at the time of initial application, the amendments will require additional disclosures on hedging relationships which are affected by uncertainty resulting from the reform of interest rate indices.	January 1st 2020

Standards and interpretations that have been published but have not yet been adopted

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates</i>)	<p>The amendments clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business:</p> <ul style="list-style-type: none"> the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not), the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary. 	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	<p>January 1st 2016</p> <p><i>(The European Commission has decided to indefinitely postpone endorsement of these amendments)</i></p>
IFRS 17 <i>Insurance Contracts</i>	<p>IFRS 17 replaces the transitional IFRS 4 Insurance Contracts introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions.</p> <p>IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.</p>	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2021
Amendments to IFRS 3 <i>Business Combinations</i>	The amendments narrow and clarify the definition of a business, and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	The Group does not expect the amendments to have a significant impact on its	January 1st 2020

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Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
		consolidated financial statements.	

Enhancing comparability

To improve data presentation as at December 31st 2019, the Group changed the presentation of assets in the consolidated statement of financial position by separating investment property from the *Investments* item and disclosing the investment property as a separate item. The data presented in the interim condensed consolidated financial statements for the period January 1st 2019–March 31st 2019 was restated to ensure comparability. The effect of the change on the consolidated statement of financial position is presented below.

PLN '000

	Mar 31 2019 Published data	Change of presentation	Mar 31 2019 Data adjusted to ensure comparability
Assets			
Investments	4,187,965	(34,783)	4,153,182
Investment property	-	34,783	34,783

5. Accounting estimates and judgements

In order to prepare interim consolidated financial statements, the Management Board is required to make judgements, estimates and assumptions which affect the application of adopted accounting policies and the reported amounts of assets, liabilities, revenue and expenses, whose actual values may differ from estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which 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
	2019 (PLN '000)	2020 (PLN '000)		
Investments in debt portfolios	4,196,821	4,074,859	9	<p>The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or debtors (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio.</p> <p>The KRUK Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for, among other things, historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.</p>
Goodwill	47,206	50,593	10.15	<p>Goodwill impairment is estimated based on the expected discounted cash flows to be derived from a cash-generating unit. The discount rate used to test goodwill for impairment reflects the current market assessment of the asset risk for the debt collection industry.</p>

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Item	Amount estimated		Note	Assumptions and estimate calculation
	2019 (PLN '000)	2020 (PLN '000)		
Loans	214,617	232,600	9	Loans advanced by the KRUK Group are measured at amortised cost, using the effective interest rate method, and recognised net of impairment losses. The effective interest rate is determined on the basis of the originally expected flow resulting directly from the original payment schedule. Interest income is calculated at the effective interest rate. Expected credit losses are estimated on the basis of expected cash flows. Changes in credit losses are recognised as income.
Lease liabilities and right-of-use assets	55,964	73,674	10.10	<p>The implementation of IFRS 16 required making estimates and calculations that affected the measurement of lease liabilities and right-of-use assets. These include:</p> <ul style="list-style-type: none"> • reviewing long-term lease contracts and identifying contracts covered by IFRS 16, • determining the remaining lease term for contracts concluded before January 1st 2019 (including for contracts with indefinite term or with the possibility of extension), • determining the marginal interest rates to be used to discount future cash flows, • identifying useful lives and determining amortisation rates for the right-of-use assets.

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Item	Amount estimated		Note	Assumptions and estimate calculation
	2019 (PLN '000)	2020 (PLN '000)		
Provisions	7,156	12,052	10.20	As at March 31st 2020, the Group assessed the legal risk arising from the CJUE ruling on consumer loans and estimated the possible amount of cash outflow for the reimbursement of early repayment fees to customers. The estimates required the Group to make expert assumptions, primarily concerning the scale of complaints and the amounts refunded prior to the CJEU judgment as well as the effect and the expected scale of prepayments and future refunds on on-balance sheet exposures. The estimates involve a certain amount of uncertainty.

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	2019 (PLN '000)	2020 (PLN '000)		
Deferred tax assets and liabilities	6,498	8,034	10.9	As the KRUK Group is able to control the timing of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). Taxable temporary differences will increase taxable income in the future.
Investments	96,936	94,367	9	The KRUK Group determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture, and therefore disclosed the transaction in the consolidated financial statements as a proportional share in the company's assets and liabilities rather than an equity-accounted transaction.
Functional currency at InvestCapital	7,121	35,672		InvestCapital carries out material transactions in three different currencies: EUR, PLN, and RON. The KRUK Group assesses the correctness of applying the functional currency for executed transactions on a quarterly basis, taking into account both historical and planned transactions. The functional currency of InvestCapital is EUR.

6. Financial risk management

The principles of financial risk management are presented in the most recent consolidated full-year financial statements prepared as at and for the financial year ended December 31st 2019. In the period from January 1st to March 31st 2020, there were no significant changes in the approach to financial risk management.

7. Reporting and geographical segments

Reportable segments

Below, the Group presents its principal reportable segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated statement of profit or loss. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reportable segments conduct the following activities:

- debt purchase: collection of purchased debt,
- credit management: fee-based collection of debt on client's behalf;
- other: financial intermediation, lending, provision of business information.

The performance of each reportable segment is discussed below. The key performance metrics for each reportable segment are gross profit and EBITDA, which are disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit and EBITDA are used to measure the segment's performance since the management believes them to be the most appropriate metrics for the assessment of the segment's results against other entities operating in the industry.

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

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

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

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

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

Reportable segments

For the reporting period ended March 31st 2020

	Poland	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	127,529	46,988	15,690	9,079	-	199,286
Purchased debt portfolios	93,039	43,438	13,034	6,427	-	155,938
including revaluation of debt portfolios	(30,666)	(33,198)	(33,857)	(27,752)	-	(125,473)
Credit management services	5,937	3,026	2,656	2,652	-	14,271
Other products	28,553	524	-	-	-	29,077
Direct and indirect costs						(155,712)
Purchased debt portfolios	-	-	-	-	-	(122,948)
Credit management services	-	-	-	-	-	(11,801)
Other products	-	-	-	-	-	(20,963)
Gross profit ¹						43,574
Purchased debt portfolios	-	-	-	-	-	32,990
Credit management services	-	-	-	-	-	2,470
Other products	-	-	-	-	-	8,114
Administrative expenses	-	-	-	-	-	(37,358)
Other income	-	-	-	-	-	1,020
Other expenses (unallocated)	-	-	-	-	-	(2,621)
EBITDA ²	40,839	22,762	(30,759)	(16,324)	(11,903)	4,615
Depreciation and amortisation	-	-	-	-	-	(11,652)

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Finance income/(costs)	-	-	-	-	-	(46,804)
Profit before tax	-	-	-	-	-	(53,841)
Income tax	-	-	-	-	-	(8,276)
Net profit	-	-	-	-	-	(62,116)
Carrying amount of debt portfolios	1,851,820	973,317	811,507	438,215	-	4,074,859
Cash recoveries	219,337	137,249	68,007	52,608	-	477,200

For the reporting period ended March 31st 2019

	Poland	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	146,312	75,434	45,431	38,534	-	305,711
Purchased debt portfolios	132,941	72,090	41,713	33,921	-	280,665
<i>including revaluation of debt portfolios</i>	<i>12,117</i>	<i>19,385</i>	<i>(3,624)</i>	<i>(3,315)</i>	-	<i>24,563</i>
Credit management services	6,359	3,158	3,718	4,613	-	17,848
Other products	7,012	186	-	-	-	7,198
Direct and indirect costs						(127,436)
Purchased debt portfolios	-	-	-	-	-	(110,559)
Credit management services	-	-	-	-	-	(14,097)
Other products	-	-	-	-	-	(2,780)
Gross profit ¹						178,275
Purchased debt portfolios	-	-	-	-	-	170,106
Credit management services	-	-	-	-	-	3,751
Other products	-	-	-	-	-	4,418
Administrative expenses	-	-	-	-	-	(39,918)
Other income	-	-	-	-	-	859

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Other expenses (unallocated)	-	-	-	-	-	(2,820)
EBITDA ²	91,525	49,043	7,111	7,259	(18,542)	136,397
Depreciation and amortisation	-	-	-	-	-	(10,110)
Finance income/(costs)	-	-	-	-	-	(32,187)
Profit before tax	-	-	-	-	-	94,099
Income tax	-	-	-	-	-	3,815
Net profit	-	-	-	-	-	97,914
Carrying amount of debt portfolios	1,903,012	947,148	744,267	513,302	-	4,107,729
Cash recoveries	200,977	131,052	40,587	54,066	-	426,682

¹ Gross profit = operating income - operating expenses.

² EBITDA = operating profit – depreciation and amortisation

³ Wonga.pl data from the share purchase agreement date, i.e. April 30th 2019.

8. Seasonality or cyclicity of business

The Group's operations are not subject to seasonal or cyclical fluctuations.

9. Type and amounts of changes in estimates adopted in previous financial years with a material effect on the reporting period

Investments

PLN '000	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Investments in debt portfolios	4,074,859	4,196,821	4,107,729
Loans	232,600	214,617	45,453
	4,307,459	4,411,438	4,153,182

Debt portfolios

In the reporting period, the Group invested PLN 57,008 thousand in debt portfolios (Q1 2019: PLN 179,480 thousand), while the amount of collections was PLN 874,333 thousand (Q1 2019: PLN 426,682 thousand). Changes in the estimated value of debt portfolios are presented below.

PLN '000	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Carrying amount of purchased debt portfolios			
Unsecured portfolios	3,272,309	3,381,998	3,247,683
Secured portfolios	802,550	814,823	860,046
	4,074,859	4,196,821	4,107,729

Unsecured portfolios are retail unsecured portfolios. Secured portfolios include mortgages as well as corporate secured and unsecured portfolios.

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:

- risk premium,
- period for which cash flows are estimated,
- the value of expected future cash flows estimated using the current data and debt collection tools.

Assumptions adopted in the valuation of debt portfolios

	Mar 31 2020 unaudited	Dec 31 2019
Discount rate		
- risk premium ¹	8.10% - 113.17%	8.10% - 113.17%
Period for which collections have been estimated	Apr 2020–Dec 2034	Jan 2020–Dec 2034
Nominal value of expected future collections	7,396,342	7,563,217

¹ Applicable to 99% of debt portfolios.

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

PLN '000	Mar 31 2020 unaudited	Dec 31 2019
Period		
Up to 12 months	1,574,644	1,662,753
From 1 to 2 years	1,554,041	1,585,210
From 2 to 3 years	1,272,569	1,277,781
From 3 to 4 years	924,431	938,026
From 4 to 5 years	698,194	706,581
Over 5 years	1,372,464	1,392,865
	7,396,342	7,563,217

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

PLN '000	
Carrying amount of purchased debt portfolios as at Dec 31 2018	4,077,718
Impact of changes in accounting policies following application of IFRS 9	
Carrying amount of purchased debt portfolios as at Jan 1 2019	
Purchase of debt portfolios	179,480
Cash recoveries	(426,682)
Value of foreclosed property	
Increase/(decrease) in liabilities to debtors due to overpayments	1,005
Valuation of loyalty scheme	1,144
Revenue from purchased debt portfolios (interest and revaluation)	280,665
Translation differences on debt portfolios	(5,601)
Carrying amount of purchased debt portfolios as at Mar 31 2019	4,107,729
 Carrying amount of purchased debt portfolios as at Dec 31 2018	 4,077,718
Purchase of debt portfolios	780,998
Cash recoveries	(1,782,443)
Increase/(decrease) in liabilities to debtors due to overpayments	4,988
Valuation of loyalty scheme	4,456
Revenue from purchased debt portfolios (interest and revaluation)	1,138,338
Translation differences on debt portfolios	(27,234)
Carrying amount of purchased debt portfolios as at Dec 31 2019	4,196,821
 Carrying amount of purchased debt portfolios as at Dec 31 2019	 4,196,821
Purchase of debt portfolios	57,008
Purchase price adjustment for discount	(100)
Cash recoveries	(477,200)
Increase/(decrease) in liabilities to debtors due to overpayments	241
Valuation of loyalty scheme	1,631
Revenue from purchased debt portfolios (interest and revaluation)	155,938
Translation differences on debt portfolios	140,520
Carrying amount of purchased debt portfolios as at Mar 31 2020	4,074,859

ProsperoCapital is a party to a joint arrangement. As at March 31st 2020, the value of the KRUK Group's investment in the joint operation disclosed in the consolidated statement of financial position was PLN 94,367 thousand, while revenue shown in the consolidated statement of profit or loss was PLN 13,541 thousand.

Sensitivity analysis – revision of projections

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in collections by 100 bps	decrease in collections by 100 bps	increase in collections by 100 bps	decrease in collections by 100 bps
Mar 31 2020				
Investments in debt portfolios	35,031	(35,031)	-	-
Dec 31 2019				
Investments in debt portfolios	36,007	(36,007)	-	-

Sensitivity analysis – time horizon

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one year	shortening by one year	extension by one year	shortening by one year
Mar 31 2020				
Investments in debt portfolios	1,286	(4,833)	-	-
Dec 31 2019				
Investments in debt portfolios	1,977	(6,166)	-	-

The sensitivity analysis assumes extension or shortening of the projection period and a simultaneous increase or decrease in collections projections (for one-year extension projected collections increased by PLN 2 thousand, while for one-year shortening projected collections decreased by PLN 81 thousand; 2019: PLN 5 thousand and PLN 154 thousand, respectively).

Loans

The analysis of loans as at the end of the reporting periods is presented below.

IFRS 9 classification	Carrying amount as at Mar 31 2020	Carrying amount as at Dec 31 2019
Investments (loans)		
Basket 1	180,839	164,886
Basket 2	30,408	28,059
Basket 3	19,568	19,263
POCI loans	1,785	2,408
	<u>232,600</u>	<u>214,617</u>

Changes in the net carrying amount of loans are presented below.

PLN '000

Carrying amount of loans as at Jan 1 2019	40,807
New disbursements	8,251
Repayments	(11,076)
Income from loans	5,387
Loss allowance for expected credit losses	(1,302)
Currency translation differences	(298)
Carrying amount of loans as at Mar 31 2019	41,769
 Carrying amount of loans as at Jan 1 2020	 214,617
New disbursements	109,773
Repayments	(116,161)
Income from loans	34,493
Loss allowance for expected credit losses	(8,080)
Sale of loans	(2,473)
Currency translation differences	325
Other differences	106
Carrying amount of loans as at Mar 31 2020	232,600

Below are presented changes in impairment losses on loans.

PLN '000	Jan 1–Mar 31 2020		
	Basket 1	Basket 2	Basket 3
Loss allowance as at Jan 1	21,298	6,730	33,293
Impairment loss recognised in the reporting period	3,093	1,699	-
Transfer from basket 1 to basket 2	(1,979)	1,979	-
Transfer from basket 1 to basket 3	(130)	-	130
Transfer from basket 2 to basket 3	-	(2,434)	2,434
Reversal of allowance for expected credit losses	-	-	(3,520)
Impairment loss at end of the period	22,282	7,974	32,337

The amount of the impairment loss is determined for individual expected loss recognition buckets, based on estimates that reflect the risk of incurring the expected loss, made taking into account the stage of delinquency. The amount of loss allowance as at the end of the reporting period covers 21.2% of gross loans.

Sensitivity analysis – revision of projections

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in collections by 100 bps	decrease in collections by 100 bps	increase in collections by 100 bps	decrease in collections by 100 bps
Mar 31 2020				
Investments in loans	2,510	(2,509)	-	-
Dec 31 2019				
Investments in loans	2,143	(2,144)	-	-

Sensitivity analysis – time horizon

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one month	reduction by reduction	extension by one month	reduction by reduction
Mar 31 2020				
Investments in loans	(6,768)	5,744	-	-
Dec 31 2019				
Investments in loans	(3,395)	1,848	-	-

Investment property

PLN '000

	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Investment property	37,419	34,655	34,783

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

PLN '000

Carrying amount of property held as at Dec 31 2018	35,106
Value of foreclosed property	3,388
Carrying amount of property sold	(3,585)
Income from sale of property	(126)
Carrying amount of property held as at Mar 31 2019	34,783
Carrying amount of property held as at Jan 1 2019	35,188
Value of foreclosed property	25,548
Carrying amount of property sold	(25,092)
Income from sale of property	(989)
Carrying amount of property held as at Dec 31 2019	34,655
Carrying amount of property held as at Jan 1 2020	34,655
Value of foreclosed property	4,814
Carrying amount of property sold	(2,122)
Income from sale of property	(147)
Currency translation differences on property valuation	219
Carrying amount of property held as at Mar 31 2020	37,419

Investment property is measured at fair value.

10. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect

10.1. Revenue

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Revenue from purchased debt portfolios	155,938	280,665
Revenue from credit management services	14,271	17,848
Revenue from other services	29,077	7,198
	199,286	305,711

Income from financial assets measured at amortised cost

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Revenue from purchased debt portfolios	155,938	280,665
Income from loans	24,266	3,788
	180,204	284,453

Revenue from collection of purchased debt portfolios and income from loans (presented under revenue from other services) are calculated on financial assets measured at amortised cost using the effective interest rate method.

Revenue from purchased debt portfolios

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Interest income	257,843	242,750
Other income from purchased debt*	18,038	9,370
Revaluation of debt portfolios	(125,473)	24,563
Gain/(loss) on sale of debts	863	1,253
Foreclosure of property	4,814	2,855
Gain/(loss) on sale of property	(147)	(126)
	155,938	280,665

* Other income from purchased debt – deviations of actual recoveries, decrease in early collections in collateralised cases, costs of loyalty scheme valuation, costs of provision for overpayments, payments by original creditors.

Revaluation of debt portfolios

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Revision of repayment projections	(121,056)	37,776
Foreign currency gains/(losses)	(4,417)	(13,213)
	(125,473)	24,563

For further information on the revaluation as at March 31st 2020, see section III.2 of this Report. *Further information on the operations of the KRUK Group.*

Income from loans

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Interest income	34,493	5,387
Loss allowance for expected credit losses	(8,080)	(1,302)
Profit/(loss) on loans	(2,473)	-
Foreign currency gains/(losses)	325	(298)
	24,266	3,788

The increase relative to the comparative period was attributable to the consolidation of Wonga.pl, acquired by the Group in April 2019.

10.2. Other income

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Gain on sale of property, plant and equipment	383	318
Other	334	238
Compensation for motor damage	122	149
Recovery of written-off receivables and expenses	80	-
Other cooperation	71	-
Re-billed costs of services and court fees	30	154
	<u>1,020</u>	<u>859</u>

10.3. Services

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Credit management services ¹	(9,383)	(6,845)
Legal assistance services ²	(4,618)	(5,532)
Administrative and accounting support services	(3,713)	(1,601)
IT services	(4,089)	(2,310)
Postal and courier services	(2,711)	(4,141)
Marketing and management services	(2,413)	(1,555)
Space rental and service charges	(2,188)	(1,562)
Banking services	(2,167)	(2,351)
Communications services	(1,607)	(1,596)
Printing services	(630)	(861)
Other auxiliary services	(464)	(760)
Security	(440)	(437)
Repair of vehicles	(372)	(261)
Repair and maintenance services	(110)	(65)
Packing services	(58)	(98)
Transport services	(8)	(5)
Recruitment services	(5)	(149)
Other rental	-	(350)
	<u>(34,976)</u>	<u>(30,479)</u>

¹ Costs of debt management services provided by external service providers.

² Legal assistance mainly relates to debt portfolio management

10.4. Employee benefits expense

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Salaries and wages	(70,913)	(66,304)
Old-age and disability pension contributions	(5,371)	(5,111)
Other social security contributions	(12,803)	(9,298)
Contribution to the State Fund for the Disabled	(421)	(401)
Equity-settled cost of stock option plan	4,567	(2,295)
	<u>(84,941)</u>	<u>(83,409)</u>

10.5. Other expenses

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Court fees	(50,674)	(36,081)
Taxes and charges	(9,659)	(11,139)
Provision for possible differences straight-line basis settlement	(4,896)	-
Advertising	(3,576)	(799)
Raw materials and consumables used	(2,517)	(2,939)
Business trips	(938)	(1,257)
Staff training	(713)	(853)
Non-compete agreements	(412)	-
Motor insurance	(339)	(296)
membership fees	(183)	-
Property insurance	(179)	(267)
Losses from damage caused by motor vehicles	(152)	(528)
Entertainment expenses	(82)	(234)
Non-deductible VAT	(65)	(133)
Impairment losses on receivables	(1)	(7)
Other	(1,387)	(1,753)
	<u>(75,773)</u>	<u>(56,286)</u>

10.6. Finance income

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Interest income on bank deposits	29	28
	<u>29</u>	<u>28</u>

10.7. Finance costs

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Interest and commission expense on financial liabilities measured at amortised cost	(29,076)	(23,866)
<i>including interest</i>	(26,262)	(21,437)
Net foreign exchange losses	(4,683)	(8,828)
Interest income/expense on derivative instruments – IRS	482	(380)
Interest income/expense on derivative instruments – FORWARD	(916)	-
Ineffective portion of remeasurement of instruments – CIRS	(12,639)	859
	<u>(46,833)</u>	<u>(53,652)</u>

10.8. Effect of exchange rate movements on consolidated statement of profit or loss

PLN '000

Note

		Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Realised exchange gains/(losses)	10.7	6,886	(2,635)
Unrealised exchange gains/(losses)	10.7	(11,569)	(6,193)
Settlement of forward contracts	10.7	(916)	-
Revaluation of debt portfolios due to exchange rate movements	10.1	(4,417)	(13,213)
Remeasurement of loans due to exchange rate movements	10.1	106	-
		<u>(9,910)</u>	<u>(22,041)</u>

10.9. Income tax

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

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Current income tax		
Current income tax payable	(7,013)	(1,593)
Adjustment to income tax for 2014	-	-
Deferred income tax		
Related to temporary differences and their reversal	(1,263)	5,408
Income tax recognised in profit or loss	<u>(8,276)</u>	<u>3,815</u>
Income tax recognised in other comprehensive income	-	-
	<u>(8,276)</u>	<u>3,815</u>

Reconciliation of effective tax rate

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

PLN '000

	Jan 1–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited
Profit before tax	(53,840)	94,099
Tax calculated at the Parent's rate (19%)	10,230	(17,879)
Effect of application of other tax rates abroad and effect of deferred tax	(23,252)	2,462
Effect of non-deductible expenses/non-taxable income	4,747	19,232
Income tax recognised in profit or loss	(8,276)	3,815
Effective tax rate (%)	-15.37%	-4.05%

Tax risk

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent amendments, both in Poland and in other EU countries where the Group operates. with a resulting lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents to follow. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretation of tax regulations, both between individual public authorities and between public authorities and enterprises.

Tax settlements and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspection by administrative bodies authorised to impose high penalties and fines plus relatively high interest, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, the tax risk in Poland and selected other countries where the Group operates is higher than in countries with more mature tax systems.

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

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

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

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

Deferred tax assets and liabilities

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

PLN '000

	Assets		Provisions		Net carrying amount	
	Mar 31 2020	Dec 31 2019	Mar 31 2020	Dec 31 2019	Mar 31 2020	Dec 31 2019
Property, plant and equipment	6,322	4,513	(6,455)	(4,909)	(133)	(396)
Intangible assets	-	-	(4,675)	(4,841)	(4,675)	(4,841)
Tax losses deductible in future periods	10,430	11,323	-	-	10,430	11,323
Trade and other receivables	-	121	(156)	(243)	(156)	(122)
Borrowings and other debt instruments	18,197	18,496	-	-	18,197	18,496
Employee benefit obligations	2,287	2,391	-	-	2,287	2,391
Provisions and liabilities	4,955	3,656	-	-	4,955	3,656
Investments	24,457	21,429	(63,396)	(58,435)	(38,939)	(37,006)
Hedge derivatives	-	-	-	-	-	-
Deferred tax assets/liabilities	66,649	61,930	(74,682)	(68,428)	(8,034)	(6,498)
Deferred tax assets offset against liabilities	(66,649)	(61,930)	66,649	61,930	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(8,034)	(6,498)	(8,034)	(6,498)

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Change in temporary differences in the period

PLN '000

	As at Jan 1 2020	Change in temporary differences recognised in profit or loss for current period	As at Mar 31 2020	As at Jan 1 2019	Change in temporary differences recognised in profit or loss for current period	Change in temporary differences related to acquisition of Wonga.pl	As at Dec 31 2019
Property, plant and equipment	(396)	263	(133)	(421)	25	-	(396)
Intangible assets	(4,841)	166	(4,675)	(2,627)	(2,214)	-	(4,841)
Tax losses deductible in future periods	11,323	(893)	10,430	1,482	9,842	-	11,323
Trade and other receivables	(122)	(35)	(156)	(173)	51	-	(122)
Borrowings and other debt instruments	18,496	(299)	18,197	10,675	7,821	-	18,496
Employee benefit obligations	2,391	(105)	2,287	2,001	390	-	2,391
Provisions and liabilities	3,656	1,298	4,955	2,265	1,391	-	3,656
Investments	(37,006)	(1,932)	(38,939)	(22,384)	(22,861)	8,239	(37,006)
	(6,498)	(1,263)	(8,034)	(9,182)	(5,282)	8,239	(6,498)

The change due to temporary differences recognised in profit or loss for the period was PLN 1,263 thousand.

10.10. Borrowings, finance lease liabilities and other financial liabilities

PLN '000

	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Non-current liabilities			
Secured borrowings	1,039,544	1,145,889	918,328
Liabilities under debt securities (unsecured)	1,215,247	1,267,601	1,281,631
Lease liabilities	57,838	44,779	36,380
	<u>2,312,629</u>	<u>2,458,269</u>	<u>2,236,339</u>
Current liabilities			
Current portion of secured borrowings	145,707	134,353	98,853
Liabilities under debt securities (unsecured)	160,363	93,575	219,461
Current portion of lease liabilities	15,836	19,530	33,320
	<u>321,906</u>	<u>247,458</u>	<u>351,634</u>

Terms and repayment schedule of borrowings, debt securities and leases

PLN '000	Currency	Nominal interest rate	Maturity	Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0-2.25pp; 1M EURIBOR + margin of 2.2-2.40pp; 3M EURIBOR + margin of 2.40pp	2024	1,185,251	1,280,242	1,017,181
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 3.0-4.0pp	2023	1,375,610	1,361,176	1,501,092
Lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.6-4pp	2022	73,674	64,309	69,700
				<u>2,634,535</u>	<u>2,705,727</u>	<u>2,587,973</u>

10.11. Derivatives

The interest rate risk management policy covers:

- a) the Group's objectives in terms of interest rate risk;
- b) methods of interest rate risk monitoring;
- c) the Group's permitted exposure to interest rate risk;
- d) procedures in case of exceeding the Group's permitted exposure to interest rate risk;
- e) principles of interest rate risk management at the KRUK Group.

Derivatives designated for hedge accounting

In previous years, 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.

Company	Type of transaction	Volume	Side of transaction - Buy /Sale of fixed rate	Fixed rate	Variable rate	Term
KRUK S.A.	IRS	150.000.000,00 PLN	buy	2.50%	3M WIBOR	November 7th 2017 to March 2nd 2022
KRUK S.A.	IRS	50.000.000,00 PLN	buy	2.50%	3M WIBOR	November 7th 2017 to May 4th 2022
KRUK S.A.	IRS	75.000.000,00 PLN	buy	1.67%	3M WIBOR	September 5th 2019 to October 18th 2022
KRUK S.A.	IRS	30.000.000,00 PLN	buy	1.65%	3M WIBOR	September 5th 2019 to November 27th 2023
KRUK S.A.	IRS	25.000.000,00 PLN	buy	1.65%	3M WIBOR	September 5th 2019 to February 6th 2024
KRUK S.A.	IRS	35.000.000,00 PLN	buy	1.6050%	3M WIBOR	September 4th 2019 to October 12th 2023
KRUK S.A.	IRS	115.000.000,00 PLN	buy	1.5775%	3M WIBOR	September 4th 2019 to September 27th 2024
KRUK S.A.	IRS	50.000.000,00 PLN	buy	1.5775%	3M WIBOR	September 4th 2019 to September 28th 2024

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

Amounts related to items designated as hedging instruments

PLN '000

	Mar 31 2020				Dec 31 2019				Item in the statement of financial position	Type of security
	Assets	Liabilities	Nominal amount	Change in fair value used to determine ineffectiveness	Assets	Liabilities	Nominal amount	Change in fair value used to determine ineffectiveness		
Instrument type:										
IRS	-	9,177	275,000 (PLN)	5,253	-	3,924	275,000 (PLN)	3,924	Derivatives	Cash flow hedges
IRS	-	6,132	255,000 (PLN)	6,552	420	-	255,000 (PLN)	420	Derivatives	Cash flow hedges
	-	15,309		11,805	420	3,924		4,344		

PLN '000

	Nominal value as at Mar 31 2020				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	(530,000)	-
floating payment PLN	-	-	-	530,000	-
	Nominal amount as at Dec 31 2019				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	(530,000)	-
floating payment PLN	-	-	-	530,000	-

PLN '000

Jan 1–Mar 31 2020

Cash flow hedge reserve	Hedge of future cash flows (interest rate risk)	Hedge of future cash flows (currency risk)	Total hedge reserve
Hedge reserve at beginning of the period	(3,525)	3,603	78
Measurement of instruments charged to capital reserves	(12,163)	-	(12,163)
Amount reclassified to profit or loss during the period	379	-	379
- Interest income	379	-	379
- Reclassification of exchange differences	-	-	-
Hedge reserve at end of the period	(15,309)	3,603	(11,706)

Other derivative instruments not designated for hedge accounting

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

The Group expects the contracts to generate cash flows and to affect its results until 2021. In 2018, due to the ineffectiveness of the hedging relationship, the valuation of the contracts was written off through profit or loss.

On February 5th 2020, InvestCapital Ltd. entered into a EUR/PLN FX forward transaction with a nominal value of PLN 50m, maturing on March 5th 2020. The transaction hedged a cash flow and was not covered by hedge accounting.

10.12. Earnings per share

Basic earnings per share

'000	Jan 1–Mar 31 2020 unaudited	Jan 1–Dec 31 2019	Jan 1–Mar 31 2019 unaudited
Number of ordinary shares as at Jan 1	18,972	18,887	18,887
Effect of cancellation and issue	-	29	-
Weighted average number of ordinary shares at end of reporting period	18,972	18,916	18,887
PLN			
Earnings per share	(3.27)	14.61	5.18

Diluted earnings per share

'000	Jan 1–Mar 31 2020 unaudited	Jan 1–Dec 31 2019	Jan 1–Mar 31 2019 unaudited
Number of ordinary shares as at Jan 1	18,972	18,916	18,887
Effect of issue of unregistered shares not subscribed for	336	410	367
Weighted average number of ordinary shares at end of reporting period (diluted)	19,308	19,326	19,254
PLN			
Earnings per share (diluted)	(3.22)	14.30	5.08

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

As at March 31st 2020

PLN '000

		Mar 31 2020 unaudited	Dec 31 2019	Mar 31 2019 unaudited
Assets				
Non-current assets				
	Property, plant and equipment	90,666	82,973	88,313
	Other intangible assets	49,615	50,252	34,852
	Goodwill	50,393	47,206	62,010
	Derivatives	-	4,219	2,034
Total non-current assets		190,674	184,650	187,209
Current assets				
	Inventories	19	37	142
	Investments	4,307,459	4,411,438	4,153,182
	Investment property	37,419	34,655	34,783
	Trade receivables	19,330	23,988	30,661
	Other receivables	38,613	31,852	25,498
	Other assets	6,493	3,020	2,687
	Cash and cash equivalents	236,073	150,274	192,454
Total current assets		4,645,406	4,655,264	4,439,407
Total assets		4,836,080	4,839,914	4,626,616
Equity and liabilities				
Equity				
	Share capital	18,972	18,972	18,887
	Share premium	307,192	307,192	300,097
	Cash flow hedging reserve	(11,706)	78	(3,674)
	Exchange differences on translating foreign operations	43,227	(30,219)	(59,033)
	Other capital reserves	100,015	104,582	97,219
	Retained earnings	1,495,665	1,557,821	1,473,916
Equity attributable to owners of the Parent		1,953,365	1,958,426	1,827,412
Non-controlling interests		41	667	478
Total equity		1,953,406	1,959,093	1,827,890
Non-current liabilities				
	Non-current liabilities under borrowings and other debt instruments	2,312,629	2,458,269	2,236,339
	Deferred tax liability	8,034	6,498	3,922
	Derivatives	25,095	3,924	4,304
Total non-current liabilities		2,345,758	2,468,691	2,244,565
Current liabilities				
	Current liabilities under borrowings and other debt instruments	321,906	247,458	351,634
	Trade and other payables	139,712	101,303	148,065
	Income tax payable	9,245	6,673	1,722
	Employee benefit obligations	54,002	49,539	52,740
	Provisions	12,052	7,156	-
Total current liabilities		536,917	412,130	554,162

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Total liabilities	2,882,674	2,880,821	2,798,727
Total equity and liabilities	<u>4,836,080</u>	<u>4,839,914</u>	<u>4,626,616</u>

10.14. Right of use

PLN '000

Mar 31 2020

Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at January 1st 2020

Buildings and structures	48,598
Plant and equipment	308
Vehicles	16,423
	<u>65,329</u>

Cost of amortisation of right-of-use assets, by class of underlying asset

Buildings and structures	(4,142)
Plant and equipment	(42)
Vehicles	(1,859)
	<u>(6,043)</u>

Increase in right-of-use assets	11,115
Decrease in right-of-use assets	(428)
Translation differences	(3,098)

Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at December 31st 2019

Buildings and structures	58,055
Plant and equipment	209
Vehicles	14,807
	<u>73,071</u>

Interest expense relating to lease liabilities	649
Cost relating to variable lease payments not included in the measurement of lease liabilities	-
Total cash outflow in connection with leases	7,116

10.15. Goodwill

PLN '000

	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK Espana S.L.	ERIF BIG S.A.	AgeCredit S.r.l	Total
Gross carrying amount as at Jan 1 2019	299	5,002	47,977	725	8,007	62,010
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Translation differences	-	(81)	(1,795)	-	184	(1,692)
Gross carrying amount as at Dec 31 2019	299	4,921	46,182	725	8,191	60,318
Gross carrying amount as at Jan 1 2020	299	4,921	46,182	725	8,191	60,318
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Translation differences	-	-	3,187	-	-	3,187
Gross carrying amount as at Mar 31 2020	299	4,921	49,369	725	8,191	63,505
Impairment losses						
Impairment loss as at Jan 1 2019	-	-	-	-	-	-
Increase	-	(4,921)	-	-	(8,191)	(13,112)
Decrease	-	-	-	-	-	-
Impairment loss as at Dec 31 2019	-	(4,921)	-	-	(8,191)	(13,112)
Impairment loss as at Jan 1 2020	-	(4,921)	-	-	(8,191)	(13,112)
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Impairment loss as at Mar 31 2020	-	(4,921)	-	-	(8,191)	(13,112)
Net carrying amount						
As at Jan 1 2019	299	5,002	47,977	725	8,007	62,010
As at Dec 31 2019	299	-	46,182	725	-	47,206
As at Jan 1 2020	299	-	46,182	725	-	47,206
As at Mar 31 2020	299	-	49,369	725	-	50,393

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 7) 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. It was determined that the cash-generating unit in the case of KRUK Espana S.L., KRUK Italia S.r.l and AgeCredit S.r.l. was the credit management business (debt collection services for unrelated undertakings) as such was both companies' business profile prior to the acquisition and these activities are 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 five-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. To calculate cost of equity, the Group applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets (as at March 31st 2020, weighted average cost of capital for the debt collection industry was at 6.47%). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 1.06% for Spain.

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In the case of KRUK Espana S. L., a 25% decline in EBITDA in the forecast period would require recognition of an impairment loss on goodwill as at December 31st 2019.

10.16. Trade and other receivables

Trade receivables

PLN '000

	Mar 31 2020	Dec 31 2019
Trade receivables	19,330	23,988
	19,330	23,988
Long-term	-	-
Short-term	19,330	23,988
	19,330	23,988

Other receivables

PLN '000

	Mar 31 2020	Dec 31 2019
Taxes receivable (other than income tax)	13,705	16,341
Receivables under security deposits and bid bonds	9,488	9,488
Receivables under collected debts	5,412	5,365
Other receivables	10,008	573
Receivables for court fees and stamp duty	-	85
	38,613	31,852

10.17. Cash and cash equivalents

PLN '000

	Mar 31 2020	Dec 31 2019
Cash in hand	704	233
Cash in current accounts	235,369	150,041
	236,073	150,274

10.18. Employee benefit obligations and provisions

PLN '000

	Mar 31 2020	Dec 31 2019
Salaries and wages payable	19,489	17,110
Social benefit obligations	13,107	11,866
Provisions for retirement severance payments	11,099	10,196
Accrued holiday entitlements	7,894	7,719
Personal income tax	2,345	2,350
Special accounts	68	189
Accrued severance payments	-	109
	54,002	49,539

10.19. Trade and other payables

PLN '000

PLN '000

	Mar 31 2020	Dec 31 2019
Trade payables	46,787	45,671
Other liabilities	24,815	16,829
Deferred income	11,870	13,490
Accrued expenses	49,495	10,246
Tax and duties payable	6,744	15,067
	139,712	101,303

10.20. Provisions

PLN '000

Other provisions

Carrying amount as at Jan 1 2019	-
Provision for possible differences straight-line basis settlement	7,156
Carrying amount as at Dec 31 2019	7,156
Carrying amount as at Jan 1 2020	7,156
Provision for possible differences straight-line basis settlement	4,896
Carrying amount as at Mar 31 2020	12,052

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

Wonga is reimbursing early repayment fees charged since 2012, i.e. since the start of its operations. In connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of fee refunds, the Company recognised a provision for the difference between the applied method of reimbursement and the straight-line method.

11. 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 condensed 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. For a full description of the risk management, see the Group's most recent full-year consolidated financial statements.

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.

Credit risk

Credit risk is the risk of financial loss to the Group if a trading partner, debtor 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.

Loans

For each loan, the Group assesses the client's creditworthiness.

As the loans are measured at amortised cost, the credit risk related to the loans is reflected in their valuations at the end of each reporting period. As at each valuation date, the Group estimates credit risk based on past inflows from loans. In Q1 2020, the Group adjusted the delinquency ratio for the impact of COVID-19 due to the likely deterioration of the borrowers' financial condition. The credit risk assessment also takes into account the period of delinquency of the loans being valued. For detailed information, see section III.2 of the report. *Further information on the operations of the KRUK Group.*

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

Over 60% of trading 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 trading partners.

The Group's exposure to credit risk mainly results from individual characteristics of each trading partner. The Group's largest trading partner generates 1.5% (2019: 2%) the Group's revenue. Receivables from the Group's largest trading partner represented 3.6% of total gross trade receivables as at March 31st 2020 (December 31st 2019: 4.2%). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises impairment losses which represent its estimates of expected 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.

The credit risk is reflected in the portfolios' valuations as at the end of each reporting period.

As at each valuation date, the Group estimates credit risk based on collections from a given portfolio as well as other portfolios with similar characteristics. The risk assessment also includes factors related to the COVID-19 pandemic, which have an impact on future cash inflows, as detailed in section III.2 of the report. *Further information on the operations of the KRUK Group.*

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.

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.

Exposure to credit risk

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

PLN '000

	Mar 31 2020	Dec 31 2019
Investments in debt portfolios	4,074,859	4,196,821
Loans	232,600	214,617
Trade and other receivables	57,943	55,840
	<u>4,365,402</u>	<u>4,467,278</u>

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

PLN '000

	Mar 31 2020	Dec 31 2019
Poland	2,097,580	2,117,848
Romania	991,495	1,009,917
Italy	821,607	820,505
Other foreign markets	454,720	519,008
	<u>4,365,402</u>	<u>4,467,278</u>

Impairment losses

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

	IFRS 9 classification	Carrying amount as at Mar 31 2020	Carrying amount as at Dec 31 2019
Trade and other receivables			
	Basket 1	59,587	57,483
	Basket 2	32	32
	Basket 3	-	-
		<u>59,619</u>	<u>57,515</u>
Impairment losses			
	Basket 1	1,644	1,643
	Basket 2	32	32
	Basket 3	-	-

	1,676	1,675
Net carrying amount		
	57,943	55,840

Changes of impairment losses on receivables are presented below:

PLN '000

	Jan 1–Mar 31 2020			Jan 1-Dec 31 2019		
	Basket 1	Basket 2	Basket 3	Basket 1	Basket 2	Basket 3
Loss allowance as at Jan 1	1,643	32	-	1,496	109	-
Loss allowance recognised in the period	1	-	-	147	-	-
Reversal of loss allowance	-	-	-	-	(77)	-
Use of loss allowance	-	-	-	-	-	-
Impairment loss at end of the period	1,644	32	-	1,643	32	-

The analysis of loans as at the end of the reporting periods is presented below.

IFRS 9 classification	Carrying amount as at Mar 31 2020	Carrying amount as at Dec 31 2019
Investments (loans)		
Basket 1	203,120	186,183
Basket 2	38,382	34,789
Basket 3	51,905	52,556
POCI loans	1,785	2,408
	295,192	275,937
Impairment losses		
Basket 1	22,281	21,298
Basket 2	7,974	6,730
Basket 3	32,337	33,293
POCI loans	-	-
	62,592	61,320
Net carrying amount	232,600	214,617

Below are presented changes in gross carrying amount of loans:

	Jan 1–Mar 31 2020				Jan 1-Dec 31 2019			
PLN '000	Basket 1	Basket 2	Basket 3	POCI loans	Basket 1	Basket 2	Basket 3	
Gross carrying amount as at Jan 1	186,183	34,789	52,556	2,408	-	38,577	19,845	-
Purchase	-	-	-	-	-	-	-	5,046
Disbursements/repayments	28,205	(4,480)	(3,846)	(623)	233,055	(1,678)	(16,270)	(2,638)
Transfer from basket 1 to basket 2	(11,118)	11,118	-	-	(31,349)	31,349	-	-

Transfer from basket 1 to basket 3	(150)	-	150	-	(15,523)	-	15,523	-
Transfer from basket 2 to basket 3	-	(3,045)	3,045	-	-	(33,458)	33,458	-
Gross carrying amount at end of the period	203,120	38,382	51,905	1,785	186,183	34,789	52,556	2,408

Below are presented changes in impairment losses on loans.

PLN '000	Jan 1–Mar 31 2020			Jan 1–Dec 31 2019		
	Basket 1	Basket 2	Basket 3	Basket 1	Basket 2	Basket 3
Loss allowance as at Jan 1	21,298	6,730	33,293	-	3,480	10,878
Impairment loss recognised in the reporting period	3,093	1,699	-	33,556	19,175	-
Transfer from basket 1 to basket 2	(1,979)	1,979	-	(4,967)	4,967	-
Transfer from basket 1 to basket 3	(130)	-	130	(7,291)	-	7,291
Transfer from basket 2 to basket 3	-	(2,434)	2,434	-	(20,893)	20,893
Reversal of allowance for expected credit losses	-	-	(3,520)	-	-	(5,769)
Impairment loss at end of the period	22,282	7,974	32,337	21,298	6,730	33,293

The gross amount of loans to natural persons was PLN 295,192 thousand as at March 31st 2020 (PLN 275,937 thousand as at December 31st 2019). The Group recognised an impairment allowance for expected credit losses on loans of PLN 62,592 thousand as at March 31st 2020 (2019: PLN 61,320 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. The amount of impairment loss covers 21.2% of the gross carrying amount of the loans.

Liquidity risk

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

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

The key objectives of liquidity management include:

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

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

The Group's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected collections from debt portfolios.

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

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

Exposure to liquidity risk

The following are the contractual terms and conditions of outflows related to financial liabilities and planned inflows from financial assets:

As at Mar 31 2020

PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	4,074,859	7,396,342	724,038	850,606	1,554,041	2,895,193	1,372,464
Loans	232,600	487,796	208,733	141,221	131,272	6,569	-
Secured borrowings	(1,185,251)	(1,260,886)	(16,028)	(43,075)	(36,772)	(1,165,010)	-
Unsecured bonds in issue	(1,375,610)	(1,520,800)	(47,063)	(165,667)	(666,538)	(590,879)	(50,653)
Lease liabilities	(73,674)	(74,272)	(12,498)	(11,431)	(18,532)	(28,353)	(3,458)
Trade and other payables	(139,712)	(139,712)	(139,712)	-	-	-	-
	1,533,212	4,888,468	717,470	771,654	963,471	1,117,520	1,318,353

The above amounts do not include expenses on and collections from future purchased debt portfolios and future operating expenses, which will be necessary to obtain proceeds from financial assets.

As at Dec 31 2019

PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	4,196,821	7,563,217	822,785	839,968	1,585,210	2,922,388	1,392,865
Loans	214,617	295,526	145,903	63,957	51,102	27,336	7,228
Secured borrowings	(1,280,242)	(1,305,176)	(26,634)	(53,769)	(40,814)	(1,183,959)	-
Unsecured bonds in issue	(1,361,176)	(1,536,673)	(49,368)	(107,724)	(590,729)	(586,767)	(202,085)
Lease liabilities	(64,309)	(66,761)	(12,100)	(12,594)	(18,930)	(19,429)	(3,707)
Trade and other payables	(101,303)	(101,303)	(101,303)	-	-	-	-
	1,604,408	4,848,830	779,283	729,837	985,839	1,159,570	1,194,301

For information on the impact of COVID-19 on KRUK S.A. 's liquidity, see section III.2 of this report. *Further information on the operations of the KRUK Group.*

Contractual cash flows were determined based on interest rates effective as at March 31st 2020 and December 31st 2019, 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 March 31st 2020, the undrawn revolving credit facility limit available to the Group was PLN 803,749 thousand (2019: PLN 556,254 thousand). The limit is available until December 20th 2023.

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 March 31st 2020, financial assets denominated in foreign currencies accounted for 53% of total assets, while liabilities denominated in foreign currencies represented 9.9% of total equity and liabilities (December 31st 2019: 52% and 22%, respectively).

Exposure to currency risk and sensitivity analysis

The Group's exposure to currency risk attributable to financial instruments denominated in foreign currencies, calculated based on the exchange rates effective at the end of the reporting period, is presented below.

PLN '000

	Mar 31 2020					Mar 31 2020				
	Exposure to currency risk					Effect on net profit/(loss) / OCI if exchange rate changes by +10%				
	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL
Effect on profit/loss for period										
Receivables	-	1,434	264	-	1,698	-	143	26	-	170
Financial assets	-	47,514	734,473	45,154	827,140	-	4,751	73,447	4,515	82,714
Cash	312	5,033	50,371	6,508	62,225	31	503	5,037	651	6,223
Liabilities under borrowings and other debt instruments	-	(338,284)	-	-	(338,284)	-	(33,828)	-	-	(33,828)
Trade and other payables	(536)	(39,618)	(946)	(127)	(41,227)	(54)	(3,962)	(95)	(13)	(4,123)
Effect on profit/loss for period	(223)	(323,922)	784,162	51,535	511,551	(22)	(32,392)	78,416	5,153	51,155
Effect on other comprehensive income										
Receivables	-	12,592	3,890	4	16,485	-	1,259	389	0	1,649
Financial assets	-	1,231,995	312,798	34,840	1,579,633	-	123,200	31,280	3,484	157,963
Cash	-	61,548	30,644	6,564	98,756	-	6,155	3,064	656	9,876
Liabilities under borrowings and other debt instruments	-	(19,083)	(29,367)	(2,104)	(50,554)	-	(1,908)	(2,937)	(210)	(5,055)
Trade and other payables	-	(26,149)	(19,256)	(3,604)	(49,009)	-	(2,615)	(1,926)	(360)	(4,901)
Effect on other comprehensive income	-	1,260,902	298,709	35,699	1,595,311	-	126,090	29,871	3,570	159,531
Exposure to currency risk	(223)	936,981	1,082,871	87,234	2,106,862	(22)	93,698	108,287	8,723	210,686

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Risk mitigation effect	-	-	(280,360)	-	(280,360)	-	-	(28,036)	-	(28,036)
Exposure to currency risk after hedging	(223)	936,981	802,511	87,234	1,826,502	(22)	93,698	80,251	8,723	182,650

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–Mar 31 2020 unaudited	Jan 1–Mar 31 2019 unaudited	Mar 31 2020 unaudited	Dec 31 2019
1 EUR	4.3963	4.2978	4.5523	4.2585
1 USD	3.9907	3.7830	4.1466	3.7977
1 RON	0.9147	0.9053	0.9429	0.8901
1 CZK	0.1691	0.1670	0.1665	0.1676

Exposure to interest rate risk

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

PLN '000	Carrying amount	
	Mar 31 2020 unaudited	Dec 31 2019
Fixed-rate financial instruments		
Financial assets	4,365,402	4,467,278
Financial liabilities	356,904	(315,003)
	4,722,306	4,152,275
Risk mitigation effect	(530,000)	(530,000)
	4,192,306	3,622,275
Variable-rate financial instruments		
Financial assets	-	-
Financial liabilities	(2,417,343)	(2,492,027)
	(2,417,343)	(2,492,027)
Risk mitigation effect	530,000	530,000
	(1,887,343)	(1,962,027)

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.

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2020

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	up by 100 bps	down by 100 bps	up by 100 bps	down by 100 bps
Mar 31 2020				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(24,173)	24,173	-	-
Dec 31 2019				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(24,920)	24,920	-	-

Fair value

The fair value and book value of financial assets and financial liabilities are presented below.

	Mar 31 2020 unaudited		Dec 31 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value				
Derivatives	(25,095)	(25,095)	295	295
	(25,095)	(25,095)	295	295
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	4,109,642	3,762,811	4,196,821	3,820,966
Loans and receivables	290,543	290,565	270,457	275,389
Secured bank borrowings	(1,185,251)	(1,185,251)	(1,280,242)	(1,280,242)
Unsecured bonds in issue	(1,375,610)	(1,383,782)	(1,361,176)	(1,372,989)
Lease liabilities	(73,674)	(73,674)	(64,309)	(64,309)
Trade and other payables	(139,712)	(139,712)	(101,303)	(101,303)
	1,625,938	1,270,958	1,660,248	1,277,512

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

The table below presents financial instruments recognised in the statement of financial position at fair value according to the valuation method applied. Depending on the level of valuation, the following inputs were used in the valuation models.

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities,
- Level 2: inputs for given assets and liabilities, other than quoted prices from Level 1, observable directly (e.g. as prices) or indirectly (e.g. as provisions derivative),
- Level 3: inputs that are not based on observable market prices (unobservable inputs).

In 2020, no transfers were made between the fair value hierarchy levels.

Hierarchy of financial instruments – Level 2

PLN '000

	Level 2	
	Carrying amount	Fair value
As at Dec 31 2019		
Derivatives	295	295
As at Mar 31 2020		
Derivatives	(25,095)	(25,095)

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

Hierarchy of financial instruments – Level 3

PLN '000

	Level 3	
	Carrying amount	Fair value
As at Dec 31 2019		
Investments in debt portfolios	4,196,821	3,820,966
Loans and receivables	270,457	275,389
As at Mar 31 2020		
Investments in debt portfolios	4,109,642	3,762,811
Loans and receivables	290,543	290,565

The fair value of purchased debt portfolios is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio. The rate used for discounting is calculated as an internal rate of return on an investment as at the date of acquisition of a portfolio and is verified so that it includes the present risk free rate and the present risk premium associated with the credit risk for each portfolio.

12. Factors and events with a material bearing on the Group's financial results

In Q1 2020, total expenditure on debt purchases was PLN 57,008 thousand, a decrease of 68% year on year. The decline was brought about by the spread of the COVID-19 pandemic, which made the Group scale down its investing activity. In the first quarter of the year, KRUK invested primarily in retail portfolios in two markets - Poland and Romania. The total nominal value of purchased debt portfolios was PLN 505,204 thousand, i.e. 64% less than the year before.

In Q1 2020, collections from purchased debt portfolios were PLN 477,200 thousand, having increased by 11.8% year on year, and by 0.4% on Q4 2019. That was an effect of the collections exceeding the operating targets in the first two months of 2020, particularly in Poland, Romania and Italy. However, in the wake of the COVID-19 outbreak in March 2020, the KRUK Group recorded lower-than-expected recoveries in Spain, Italy, Romania and Poland. The Management Board of KRUK S.A. assumes that the epidemic and its

consequences in Poland and the Group's other home markets will have an adverse effect on the amount of repayments later in 2020. Therefore, the Group recognised a PLN -125,473 thousand negative revaluation of its debt portfolios, which had a direct effect on its Q1 2020 results.

As at March 31st 2020, the Group's purchased debt portfolios accounted for 84% of its assets. Equity accounted for 40% of the Group's financing sources.

For information on the impact of COVID-19 on the KRUK Group's standing, see item 2. *Further information on the operations of the KRUK Group.*

13. Issue, redemption and repayment of non-equity and equity securities

In Q1 2020, the Group did not redeem or issue new bonds.

On March 9th 2020, KRUK S.A. launched the issue of Series AJ2 bonds under the 6th Public Bond Issue Programme, but on March 18th 2020 the Company pulled the offering due to the pandemic. The issue was discontinued.

On April 1st 2020 the Management Board of KRUK S.A. passed a resolution to purchase some of the Company's bonds in book-entry form with a nominal value of PLN 100 or PLN 1,000, depending on the series. Pursuant to the resolution, the objective is to redeem purchased bonds, and the bond purchasing will continue until September 30th 2020, with the total value of transactions to not exceed PLN 25m.

14. Dividends paid (or declared)

By the date of issue of this report, the Parent's Management Board did not resolve on a proposed allocation of the Company's net profit for 2019.

15. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance

On April 21st 2020, the Management Board of KRUK S.A. passed a resolution to establish the 7th Bond Issue Programme with a total nominal value of up to PLN 700m. As part of the programme, the Parent will be able to issue public bonds during one year from the date of approval of the issue prospectus by the Polish Financial Supervision Authority. Individual bond issues under the programme may differ with respect to their terms and conditions, in particular the rules of determining interest rates. Detailed terms and conditions of a given bond series will be provided for in the issue prospectus and the final terms of the issue.

On April 30th 2020, Ms Agnieszka Kułton - Member of the Management Board, Chief Debt Management Officer, resigned as Member of the Management Board with effect as of May 28th 2020, citing health reasons. Accordingly, the President of the Management Board of KRUK S.A. requested that the Supervisory Board of KRUK S.A. appoints Mr Piotr Kowalewski as Member of the Management Board, Chief Debt Management Officer, with effect as of May 29th 2020. Mr Piotr Kowalewski has worked at KRUK S.A. since 2004. Currently employed as Head of Debt Management at KRUK S.A., he is responsible for the debt collection strategy in the consumer segment and its implementation at the KRUK Group, oversees out-of-court collection and court processes, and is responsible for international cooperation in the purchased debt portfolios segment.

On April 30th 2020, Ms Iwona Słomska - Member of the Management Board, Marketing, PR and Human Resources, resigned as Member of the Management Board with effect as of July 31st 2020, citing important personal reasons. Accordingly, the President of the Management Board of KRUK S.A. requested that the Supervisory Board of KRUK S.A. sets the number of members of the Company's Management Board at four, effective as of to August 1st 2020.

16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

KRUK Group's assets pledged as security

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 52.97m	By December 19th 2022	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 40.14m	By June 4th 2024	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 210m	By July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162.40m	Until the derivative transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 162.40m	By October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions

Guarantee issued by KRUK S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A. are fulfilled	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 287,637.26 and PLN 192,958.93	By December 30th 2020	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	By December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	EUR 390m	Until all obligations under the credit facility agreement are satisfied.	The Borrower's failure to pay amounts owed under the credit facility agreement
Blank promissory note	mBank S.A.	PLN 7.5m	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019

Surety for InvestCapital LTD's liabilities under financial market transactions in pursuant to the master agreement between InvestCapital LTD and DNB Bank Polska S.A.	DNB Bank Polska S.A.	EUR 15.3m	Until the transactions are settled and the bank's claims thereunder are satisfied.	InvestCapital LTD's failure to satisfy its obligations under financial market transactions executed pursuant to the master agreement of February 28th 2019.
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 50m	By June 12th 2020	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on March 4th 2020.
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 200m	By July 14th 2020	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on March 30th 2020.

Credit sureties or guarantees, security pledges

In connection with a revolving multi-currency credit facility agreement between InvestCapital LTD, Kruk Romania S.R.L., PROKURA NS FIZ and Kruk España S.L.U (the Borrowers) and KRUK S.A., and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A., dated July 3rd 2017, to secure liabilities under the agreement:

- On January 3rd 2020 InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A. signed an agreement under Spanish law establishing a pledge over a debt portfolio purchased by InvestCapital LTD on the Spanish market.
- On February 14th 2020 InvestCapital Ltd and DNB Bank ASA signed an agreement under Romanian law to create a pledge over portfolios purchased by InvestCapital Ltd on the Romanian market.

As at March 31st 2020, the value of all portfolios pledged in favour of DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A. was PLN 1,411.7m.

In connection with a PLN 50,000,128.00 share cancellation at InvestCapital Ltd. completed on March 4th 2020, which will become final by June 12th 2020, on March 4th 2020 KRUK S.A. issued a corporate guarantee for up to PLN 50,000,128.00 thousand to InvestCapital Ltd. The guarantee will expire on June 12th 2020. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the share cancellation by June 12th 2020.

In connection with a PLN 200,000,076.80 share cancellation at InvestCapital Ltd. completed on March 30th 2020, which will become final by July 14th 2020, on March 30th 2020 KRUK S.A. issued a corporate guarantee for up to PLN 200,000,076.80 thousand to InvestCapital Ltd. The guarantee will expire not later than on July

14th 2020. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the share cancellation by July 10th 2020.

Piotr Krupa
*President of the
Management Board*

Agnieszka Kułton
*Member of the
Management Board*

Urszula Okarma
*Member of the
Management Board*

Iwona Słomska
*Member of the
Management Board*

Michał Zasępa
*Member of the
Management Board*

Monika Grudzień-Wiśniewska
*Person responsible for
maintaining the accounting
records*

Hanna Stempień
*Person preparing the financial
statements*

Wrocław, May 28th 2020