



FINANCIAL HIGHLIGHTS

OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period January 1st–
September 30th 2020

Financial highlights

Financial highlights	PLN '000		EUR '000	
	Jan 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jan 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited
For the period				
Revenue	791,602	948,124	178,207	220,054
Operating profit	207,224	361,288	46,651	83,853
Profit before tax	109,023	258,921	24,543	60,094
Net profit attributable to owners of the Parent	34,551	244,596	7,778	56,769
Net cash from operating activities	795,687	353,450	179,126	82,034
Purchase of debt portfolios at prices as per agreement	(112,601)	(391,920)	(25,349)	(90,962)
Cash recoveries	1,346,246	1,307,204	303,069	303,395
Net cash from investing activities	(8,954)	(133,302)	(2,016)	(30,939)
Net cash from financing activities	(671,283)	(202,320)	(151,120)	(46,957)
Net change in cash	115,451	17,829	25,990	4,138
Diluted earnings per share (PLN/EUR)	1.79	12.66	0.40	2.94
Average number of shares ('000)	18,972	18,911	18,972	18,911
Earnings per share (PLN/EUR)	1.82	12.93	0.41	3.00
	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2020 unaudited	Dec 31 2019
As at				
Total assets	4,511,386	4,839,914	996,595	1,136,530
Non-current liabilities	1,698,707	2,468,691	375,256	579,709
Current liabilities	748,808	412,130	165,417	96,778
Equity	2,063,871	1,959,093	455,923	460,043
Share capital	18,972	18,972	4,191	4,455
Book value per ordinary share	108.79	103.26	24.03	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	4.4420
for the comparative period	4.3086

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	4.5268
at end of the comparative period	4.2585



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period January 1st–
September 30th 2020

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I. Consolidated statement of financial position

As at Sep 30 2020

PLN '000

	Note	Sep 30 2020 unaudited	Dec 31 2019 restated	Sep 30 2019 unaudited restated
Assets				
Cash and cash equivalents	10.18	265,725	150,274	165,131
Trade receivables	10.17	27,745	23,988	25,814
Investments	9	3,983,956	4,411,438	4,245,900
Other receivables	10.17	39,779	31,852	38,678
Inventories	9	34,491	34,692	36,467
Property, plant and equipment	10.15	85,434	82,973	86,470
Goodwill	10.16	22,631	47,206	63,184
Other intangible assets		48,216	50,252	51,016
Deferred tax asset	10.9	-	-	3,052
Derivatives		-	3,799	32
Hedging instruments		-	420	-
Other assets		3,409	3,020	6,039
Total assets		4,511,386	4,839,914	4,721,783
Equity and liabilities				
Liabilities				
Derivatives	10.11	6,932	-	5,062
Trade and other payables	10.20	128,286	101,303	131,816
Hedging instruments	10.12	21,044	3,924	4,720
Employee benefit obligations	10.19	51,574	49,539	60,807
Income tax payable		7,828	6,673	4,022
Borrowings, debt securities and leases	10.10	2,148,188	2,705,727	2,550,255
Provisions	10.21	24,319	7,156	-
Deferred tax liability	10.9	59,344	6,498	-
Total liabilities		2,447,515	2,880,821	2,756,682
Equity				
Share capital		18,972	18,972	18,931
Share premium		307,192	307,192	303,711
Cash flow hedging reserve		(17,441)	78	(8,840)
Translation reserve		60,333	(30,219)	21,189
Other capital reserves		197,210	104,582	103,633
Retained earnings		1,497,322	1,557,821	1,526,252
Equity attributable to owners of the Parent		2,063,587	1,958,426	1,964,876
Non-controlling interests		284	667	225
Total equity		2,063,871	1,959,093	1,965,101
Total equity and liabilities		4,511,386	4,839,914	4,721,783

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

II. Consolidated statement of profit or loss

For the reporting period January 1st – September 30th 2020

PLN '000

	Note	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Continuing operations					
Revenue	10.1	791,602	335,176	948,124	326,489
of which:					
- interest income on debt portfolios calculated using the effective interest rate method		737,562	234,596	732,068	246,781
- revaluation of debt portfolios		(214,074)	(14,187)	52,732	21,371
- interest income on other financial instruments calculated using the effective interest rate method		93,512	27,797	50,376	28,480
- loss allowance for expected credit losses on loans		(23,947)	(3,567)	(15,311)	(14,009)
Other income	10.2	17,875	3,284	4,325	2,800
		809,477	338,460	952,449	329,289
Employee benefits expense	10.4	(250,430)	(80,983)	(263,248)	(87,784)
Depreciation and amortisation		(34,669)	(11,487)	(32,784)	(11,533)
Services	10.3	(99,978)	(31,789)	(99,700)	(36,223)
Other expenses	10.5	(217,176)	(59,411)	(195,429)	(64,463)
		(602,253)	(183,670)	(591,161)	(200,003)
Operating profit/(loss)		207,224	154,790	361,288	129,286
Finance income	10.6	101	36	147	74
Finance costs	10.7	(98,302)	(28,272)	(102,514)	(46,494)
Net finance costs		(98,201)	(28,236)	(102,367)	(46,420)
Profit/(loss) before tax		109,023	126,553	258,921	82,866
Income tax	10.9	(74,576)	(72,791)	(14,100)	(5,028)
Net profit/(loss) for period		34,447	53,762	244,821	77,838
Net profit/(loss) attributable to:					
Owners of the Parent	10.13	34,551	53,844	244,596	77,777
Non-controlling interests		(104)	(82)	225	61
Net profit/(loss) for period		34,447	53,762	244,822	77,839
Earnings/(loss) per share					
Basic (PLN)		1.82	2.83	12.93	4.10
Diluted (PLN)		1.79	2.80	12.66	4.01

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

III. Consolidated statement of comprehensive income

For the reporting period January 1st – September 30th 2020

PLN '000

	Note	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Net profit/(loss) for period		34,447	53,762	244,822	77,839
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		90,552	17,579	74,958	63,894
Cash flow hedges		(17,519)	1,630	(8,840)	(13,534)
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Other comprehensive income for the period, net		73,033	19,210	66,118	50,360
Total comprehensive income for period		107,479	72,971	310,940	128,199
Total comprehensive income attributable to:					
Owners of the Parent		107,583	73,053	310,714	128,138
Non-controlling interests		(104)	(82)	225	61
Total comprehensive income for period		107,479	72,971	310,939	128,199
Comprehensive income/ (loss) per share					
Basic (PLN)		5.67	3.85	16.44	6.78
Diluted (PLN)		5.58	3.79	16.10	6.64

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

IV. Consolidated statement of changes in equity

For the reporting period ended September 30th 2020

PLN '000

							Equity attributable to owners of the Parent	Non- controlling interests	Total equity
Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings			
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 period	-	-	-	-	-	34,551	34,551	(104)	34,446
Other comprehensive income									
- Exchange differences on translating foreign operations	-	-	-	90,552	-	-	90,552	-	90,552
- Measurement of hedging instruments	-	-	(17,519)	-	-	-	(17,519)	-	(17,519)
Total other comprehensive income	-	-	(17,519)	90,552	-	-	73,033	-	73,033
Total comprehensive income for period	-	-	(17,519)	90,552	-	34,551	107,583	(104)	107,479
Contributions from and distributions to owners									
- Payment of dividends	-	-	-	-	-	-	-	(280)	(280)
- Issue of shares	-	-	-	-	-	-	-	-	-
- Share-based payments	-	-	-	-	(2,422)	-	(2,422)	-	(2,422)
- Allocation of profit to capital reserve for buyback of shares	-	-	-	-	95,050	(95,050)	-	-	-
Total contributions from and distributions to owners	-	-	-	-	92,628	(95,050)	(2,422)	(280)	(2,702)
Total equity as at Sep 30 2020	18,972	307,192	(17,441)	60,333	197,210	1,497,322	2,063,587	284	2,063,871

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

For the reporting period ended December 31st 2019

PLN '000

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

For the reporting period ended September 30th 2019

PLN '000

Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Equity as at Jan 1 2019	18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Comprehensive income for the period							-		-
Net profit for period	-	-		-	-	244,822	244,822	225	245,047
Other comprehensive income							-		-
- Exchange differences on translating foreign operations	-	-	-	74,958	-	-	74,958	-	74,958
- Measurement of hedging instruments	-	-	(4,971)	-	-	-	(4,971)	-	(4,971)
Total other comprehensive income	-	-	(4,971)	74,958	-	-	69,987	-	69,987
Total comprehensive income for period	-	-	(4,971)	74,958	-	244,822	314,809	225	315,034
Contributions from and distributions to owners							-		-
- Payment of dividends						(94,653)	(94,653)	(396)	(95,049)
- Share-based payments	-	-	-	-	8,709	-	8,709	-	8,709
- Issue of shares	44	3,614	-	-	-	-	3,658	-	3,658
Total contributions from and distributions to owners	44	3,614	-	-	8,709	(94,653)	(82,286)	(396)	(82,682)
Total equity as at Sep 30 2019	18,931	303,711	(8,840)	21,189	103,633	1,526,252	1,964,876	225	1,965,101

V. Consolidated statement of cash flows

For the reporting period January 1st – September 30th 2020

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited restated	Jul 1-Sep 30 2019 unaudited restated
Cash flows from operating activities				
Net profit for period	34,447	53,762	244,821	77,838
<i>Adjustments</i>		-		
Depreciation of property, plant and equipment	24,143	3,643	26,780	9,334
Amortisation of intangible assets	10,526	7,844	6,004	2,199
Net finance costs	100,450	28,950	95,420	43,792
(Gain)/loss on sale of property, plant and equipment	(525)	43	(308)	20
Equity-settled share-based payments	(2,422)	1,238	8,709	2,379
Income tax	74,576	72,791	14,100	5,028
Change in loans	7,739	(4,457)	(69,969)	(38,003)
Change in debt portfolios purchased	532,916	113,136	100,509	59,612
Change in inventories	201	3,527	(1,082)	1,813
Change in trade and other receivables	(17,573)	(11,644)	(13,505)	(3,633)
Change in other assets	(389)	(2,447)	(3,253)	(5,580)
Change in trade and other payables	26,983	18,496	(16,862)	(38,353)
Change in employee benefit obligations	2,035	801	-	-
Change in provisions	17,163	4,820	-	-
Share of minority profits	104	82	-	-
Income tax paid	(14,687)	(6,860)	(37,912)	(14,345)
Net cash from operating activities	795,687	283,724	353,450	102,100
Cash flows from investing activities				
Interest received	101	36	147	74
Sale of intangible assets and property, plant and equipment	1,952	203	1,226	397
Acquisition of a subsidiary, less cash acquired	-	-	(92,365)	-
Purchase of intangible assets and property, plant and equipment	(11,007)	(1,458)	(42,310)	(25,634)
Net cash from investing activities	(8,954)	(1,219)	(133,302)	(25,163)
Cash flows from financing activities				
Net proceeds from issue of shares	-	-	3,659	-
Proceeds from issue of shares on stock exchange	-	-	-	-
Proceeds from issue of debt securities	24,562	24,562	215,000	25,000
Increase in borrowings	272,151	(46,257)	1,003,538	130,828
Repayment of borrowings	(857,227)	(217,656)	(1,089,431)	(229,425)
Payments under lease contracts	(17,752)	(6,410)	(10,727)	(3,576)
Dividends paid	(280)	(64)	(94,858)	(94,858)
Redemption of debt securities	(13,360)	-	(136,388)	(86,388)
Interest paid	(79,377)	(21,620)	(93,113)	(37,124)

Net cash from financing activities	(671,283)	(267,445)	(202,320)	(295,542)
Total net cash flows	115,451	15,061	17,830	(218,605)
Cash and cash equivalents at beginning of period	150,274	250,664	147,302	383,738
Cash and cash equivalents at end of period	265,725	265,725	165,131	165,131

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

VI. 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 – September 30th 2020 include the financial statements of the Parent and its subsidiaries (jointly the “Group”).

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

In the three months to September 30th 2020, there were changes in the composition of the Parent’s Management Board. As at June 30th 2020, the Parent’s Management Board was composed of the following persons:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	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 the three months to September 30th 2020, the following changes took place on the Parent's Management Board:

- 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. As a result, since August 1st 2020 the Parent's Management Board has consisted of four members.

As at September 30th 2020 and the date of issue of this interim report, the Management Board consisted of:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Michał Zasępa	Member of the Management Board

As at September 30th 2020, the composition of the Parent's Supervisory Board was as follows:

Piotr Stępiak	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 the three months to September 30th 2020 and by the issue date of this interim report, the composition of the Supervisory Board of KRUKE 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 by KRUK S.A.
Secapital Polska Sp. z o.o. (in liquidation)*	Wrocław	Management of securitised debt
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
InvestCapital Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt 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

**By Resolution No. 1/2020 of July 1st 2020, the Extraordinary General Meeting of Secapital Polska Sp. z o.o. of Wrocław resolved to close down the company through liquidation. Piotr Krupa, an existing member of the company's Management Board, was appointed its liquidator.*

All the subsidiaries listed above are included in these condensed consolidated financial statements as at September 30th 2020 and for the period January 1st – September 30th 2020.



The Parent 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 (%)	
		Sep 30 2020	Dec 31 2019
SeCapital S.à r.l. ¹	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o. (in liquidation)	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l	Romania	100%	100%
Kancelaria Prawna Raven P. Krupa Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ ¹	Poland	100%	100%
InvestCapital Ltd ¹	Malta	100%	100%
RoCapital IFN S.A.	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK España S.r.l	Spain	100%	100%
ProsperoCapital S.à r.l. ²	Luxembourg	100%	100%
Presco Investments S.a.r.l. ¹	Luxembourg	100%	100%
Presco Investments I NS FIZ ¹	Poland	100%	100%
BISON NS FIZ ¹	Poland	100%	100%
Elleffe Capital S.r.l. ¹	Italy	100%	100%
Corbul S.r.l. ³	Romania	-	-
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 September 30th 2020 and the comparative period is the period from January 1st 2019 to September 30th 2019. The consolidated statement of financial position was prepared as at September 30th 2020 and the comparative data was presented as at September 30th 2019 and December 31st 2019. The consolidated statement of changes in equity was prepared for the period from January 1st 2020 to September 30th 2020 and the comparative periods are from January 1st 2019 to September 30th 2019 and from January 1st 2019 to December 31st 2019. The quarterly financial data is presented for the periods from July 1st 2020 to September 30th 2020 and from July 1st 2019 to September 30th 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 for the foreseeable future, that is for 12 months from the reporting date. The going concern assumption was reviewed in the light of the Covid-19 pandemic, with a detailed assessment of its impact on the Group's operations presented in section 2 of part III of this report: *Additional information on the operations of the KRUK Group*.

These interim condensed financial statements were authorised for issue by the Parent's Management Board (the "Management Board") on November 5th 2020.

All amounts in these interim condensed consolidated financial statements are presented in the Polish złoty, rounded to the nearest thousand. Therefore, mathematical inconsistencies may occur in summations or between notes.

The Polish złoty is the functional currency of the Parent.

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 interim condensed 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, except for the change involving the reclassification of property as described in

the *Change in accounting treatment due to reclassification* section, and the presentation change involving items of the consolidated statement of financial position as described in the *Enhancing comparability* section.

Change in accounting treatment due to reclassification

As part of its operating activities, the Group forecloses property securing acquired debt. To better reflect the relevant economic substance, as at September 30th 2020 the Group reclassified such property, previously recognised as *Investment property*, to *Inventories*.

The effect of the change on the consolidated statement of financial position and the consolidated statement of cash flows for the comparative periods is presented below. The change has not affected the consolidated statement of changes in equity for the comparative periods, that is for the period ended September 30th 2019 and for the period ended December 31st 2019, the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the comparative reporting periods, that is for the reporting period from January 1st 2019 to September 30th 2019 and for the reporting period from July 1st 2019 to September 30th 2019.

PLN '000

	Jan 1 2019	Reclassification of property	Jan 1 2019 Restated	Sep 30 2019	Reclassification of property	Sep 30 2019 Restated	Dec 31 2019	Reclassification of property	Dec 31 2019 Restated
Assets									
Cash and cash equivalents	147,302	-	147,302	165,131	-	165,131	150,274	-	150,274
Trade receivables	28,143	-	28,143	25,814	-	25,814	23,988	-	23,988
Investments	4,121,782	-	4,121,782	4,282,108	(36,209)	4,245,900	4,411,438	-	4,411,438
Investment property	35,188	(35,188)	-	-	-	-	34,655	(34,655)	-
Other receivables	23,088	-	23,088	38,678	-	38,678	31,852	-	31,852
Inventories	197	35,188	35,385	259	36,209	36,467	37	34,655	34,692
Property, plant and equipment	26,354	-	26,354	86,470	-	86,470	82,973	-	82,973
Goodwill	62,010	-	62,010	63,184	-	63,184	47,206	-	47,206
Other intangible assets	33,877	-	33,877	51,016	-	51,016	50,252	-	50,252
Deferred tax asset	-	-	-	3,052	-	3,052	-	-	-
Derivatives	1,450	-	1,450	32	-	32	4,219	-	4,219
Other assets	2,786	-	2,786	6,039	-	6,039	3,020	-	3,020
Total assets	4,482,177	-	4,482,177	4,721,783	-	4,721,783	4,839,914	-	4,839,914

PLN '000

	Jan 1 2019	Reclassification of property	Jan 1 2019 Restated	Sep 30 2019	Reclassification of property	Sep 30 2019 Restated	Dec 31 2019	Reclassification of property	Dec 31 2019 Restated
Liabilities									
Hedge derivatives	3,870	-	3,870	9,782	-	9,782	3,924	-	3,924
Trade and other payables	176,054	-	176,054	131,816	-	131,816	101,303	-	101,303
Employee benefit obligations	44,678	-	44,678	60,807	-	60,807	49,539	-	49,539
Income tax payable	15,600	-	15,600	4,022	-	4,022	6,673	-	6,673
Liabilities under borrowings and other debt instruments	2,500,043	-	2,500,043	2,550,255	-	2,550,255	2,705,727	-	2,705,727
Deferred tax liability	9,182	-	9,182	-	-	-	7,156	-	7,156
Total liabilities	2,749,427	-	2,749,427	2,756,682	-	2,756,682	2,880,821	-	2,874,323

Equity

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Share capital	18,887	-	18,887	18,931	-	18,931	18,972	-	18,972
Share premium	300,097	-	300,097	303,711	-	303,711	307,192	-	307,192
Cash flow hedging reserve	(3,869)	-	(3,869)	(8,840)	-	(8,840)	78	-	78
Translation reserve	(53,769)	-	(53,769)	21,189	-	21,189	(30,219)	-	(30,219)
Other capital reserves	94,924	-	94,924	103,633	-	103,633	104,582	-	104,582
Retained earnings	1,376,084	-	1,376,084	1,526,252	-	1,526,252	1,557,821	-	1,557,821
Equity attributable to owners of the Parent	1,732,354	-	1,732,354	1,964,876	-	1,964,876	1,958,426	-	1,958,426
Non-controlling interests	396	-	396	225	-	225	667	-	396
Total equity	1,732,750	-	1,732,750	1,965,101	-	1,965,101	1,959,093	-	1,958,822
Total equity and liabilities	4,482,177	-	4,482,177	4,721,783	-	4,721,783	4,839,914	-	4,833,145

PLN '000

	Jan 1-Sep 30 2019 unaudited	Reclassification of property	Jan 1-Sep 30 2019 restated	Jul 1-Sep 30 2019 unaudited	Reclassification of property	Jul 1-Sep 30 2019 restated
Cash flows from operating activities						
Net profit for period	244,821	-	244,821	77,838	-	77,838
<i>Adjustments</i>						
Depreciation of property, plant and equipment	26,780	-	26,780	9,334	-	9,334
Amortisation of intangible assets	6,004	-	6,004	2,199	-	2,199
Net finance costs	95,420	-	95,420	43,792	-	43,792
(Gain)/loss on sale of property, plant and equipment	(308)	-	(308)	20	-	20
Equity-settled share-based payments	8,709	-	8,709	2,379	-	2,379
Income tax	14,100	-	14,100	5,028	-	5,028
Change in loans	(69,969)	-	(69,969)	(38,003)	-	(38,003)
Change in investments in debt portfolios and property	99,488	1,021	100,509	61,416	(1,804)	59,612
Change in inventories	(62)	(1,021)	(1,082)	8	1,804	1,813

Change in trade and other receivables	(13,505)	-	(13,505)	(3,633)	-	(3,633)
Change in other assets	(3,253)	-	(3,253)	(5,580)	-	(5,580)
Change in trade and other payables	(16,862)	-	(16,862)	(38,353)	-	(38,353)
Change in employee benefit obligations						
Income tax paid	(37,912)	-	(37,912)	(14,345)	-	(14,345)
Net cash from operating activities	353,450	-	353,450	102,100	-	102,100
Cash flows from investing activities						
Interest received	147	-	147	74	-	74
Sale of intangible assets and property, plant and equipment	1,226	-	1,226	397	-	397
Acquisition of subsidiaries	(92,365)	-	(92,365)	-	-	-
Purchase of intangible assets and property, plant and equipment	(42,310)	-	(42,310)	(25,634)	-	(25,634)
Net cash from investing activities	(133,302)	-	(133,302)	(25,163)	-	(25,163)
Cash flows from financing activities						
Net proceeds from issue of shares	3,659	-	3,659	-	-	-
Proceeds from issue of debt securities	215,000	-	215,000	25,000	-	25,000
Increase in borrowings	1,003,538	-	1,003,538	130,828	-	130,828
Repayment of borrowings	(1,089,431)	-	(1,089,431)	(229,425)	-	(229,425)
Payments under lease contracts	(10,727)	-	(10,727)	(3,576)	-	(3,576)
Dividends paid	(94,858)	-	(94,858)	(94,858)	-	(94,858)
Redemption of debt securities	(136,388)	-	(136,388)	(86,388)	-	(86,388)
Interest paid	(93,113)	-	(93,113)	(37,124)	-	(37,124)
Net cash from financing activities	(202,320)	-	(202,320)	(295,542)	-	(295,542)
Total net cash flows	17,830	-	17,830	(218,605)	-	(218,605)
Cash and cash equivalents at beginning of period	147,302	-	147,302	383,738	-	383,738
Cash and cash equivalents at end of period	165,131	-	165,131	165,131	-	165,131

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, applied by the Group in accordance with their effective periods:

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 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	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 amendments have no significant effect on the interim condensed consolidated financial statements.	January 1st 2020
Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>	<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 amendments do not significantly affect the scope of information presented in the interim condensed consolidated financial statements.	January 1st 2020
Amendments to IFRS 3 <i>Business Combinations</i>	The amendments narrow and clarify the definition of a business,	The standard has no significant effect on the interim condensed	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
	and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	consolidated financial statements.	
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	The amendments were introduced after the <i>Conceptual Framework</i> had been renamed as the <i>Conceptual Framework for the Preparation and Presentation of Financial Statements</i> to replace references to the previous Framework, occurring in a number of standards and interpretations, with references to the amended Conceptual Framework.	The amendments have no significant effect on the interim condensed consolidated financial statements.	January 1st 2020

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

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 <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.	January 1st 2016 <i>(The European Commission has decided to indefinitely postpone endorsement of these amendments)</i>
Amendments to IFRS 16 <i>Covid-19-Related Rent Concessions</i>	The amendments to IFRS 16 permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic and meeting relevant conditions are lease modifications and instead to account for those rent concessions as if they are not lease modifications.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	June 1st 2020
Amendments to IAS 1 <i>Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current</i>	The amendments clarify that the classification of liabilities as current or non-current should be based solely on the entity's right that is in existence at the end of the reporting period to defer settlement of a given liability. The right to defer settlement of a liability by at least 12 months from the reporting date does not need to be unconditional, but must have substance. Such classification is not affected by the management's intentions or expectations about whether and when the entity will exercise its right. The amendments also provide clarifications as to events which are deemed settlement of a liability.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2022

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Annual Improvements to IFRSs 2018 – 2020 Cycle	<p>The Annual Improvements to IFRSs include amendments to IFRS 1 <i>First-time Adoption of International Financial Standards</i>, IFRS 9 <i>Financial Instruments</i>, Illustrative Example to IFRS 16 <i>Leases</i>, and IAS 41 <i>Agriculture</i>.</p> <p>The amendment to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.</p> <p>The amendment to IFRS 9 clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.</p> <p>The amendment to IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives.</p> <p>The amendment to IAS 41 removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using the parent's technique. This is intended to ensure consistency with the requirements in IFRS 13 <i>Fair Value Measurement</i>.</p>	The Group is examining the impact of the amendments on its consolidated financial statements.	January 1st 2022
Amendments to IAS 16 <i>Property, Plant and Equipment – Proceeds before Intended Use</i>	The amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while preparing that asset for its intended use. Instead, the entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2022
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	The amendments to IAS 37 clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous.	The Group does not expect the amendments to have a significant impact on its	January 1st 2022

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
		consolidated financial statements.	
Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	The amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. The also add a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination. In addition, the standard adds an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2022
Amendments to IFRS 4 <i>Extension of the Temporary Exemption from Applying IFRS 9</i>	The amendments to IFRS 4 grant a temporary exemption permitting an insurer to apply IAS 39 instead of IFRS 9 <i>Financial Instruments</i> . The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.	The amendments will have no significant effect on the consolidated financial statements.	June 1st 2023
IFRS 17 <i>Insurance Contracts</i>	IFRS 17 replaces the transitional IFRS 4 <i>Insurance Contracts</i> introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2023

Enhancing comparability

To better reflect the relevant economic substance, as at September 30th 2020 the Group changed the presentation of liabilities in the consolidated statement of financial position by taking hedging instruments from the *Derivatives* item and disclosing them as a separate item. In the Management Board's opinion, the separate presentation of these line items will enhance the quality of data presented in these interim condensed consolidated financial statements and its usefulness to readers. The data presented in the published interim condensed consolidated financial statements for the period January 1st 2019–September 30th 2019 and in the published consolidated financial statements for the year ended December 31st 2019 was restated to ensure comparability. The effect of the change on the consolidated statement of financial position is presented below.

PLN '000

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

PLN '000

	Sep 30 2019 Originally reported	Change of presentation	Sep 30 2019 Data restated to ensure comparability
Liabilities			
Derivatives	9,782	(4,720)	5,062
Hedging instruments	-	4,720	4,720

PLN '000

	Dec 31 2019 Originally reported	Change of presentation	Dec 31 2019 Data restated to ensure comparability
Assets			
Derivatives	4,219	(420)	3,799
Hedging instruments	-	420	420
Liabilities			
Derivatives	3,924	(3,924)	-
Hedging instruments	-	3,924	3,924

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 assumptions are reviewed by the Group on an ongoing basis, based on past experience and other factors, including expectations as to future events, which seem justified in given circumstances. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised. In particular, the Group's estimates as at September 30th 2020 reflected the impact of Covid-19 on the Group's assets and liabilities. However, given a considerable degree of uncertainty regarding further economic developments, these estimates may be subject to change in the future.

The uncertainty of the Group's estimates as at September 30th 2020 relates mainly to:

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2019 (PLN '000)	Sep 30 2020 (PLN '000)		
Investments in debt portfolios	4,196,821	3,777,079	9	The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or indebted persons (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. The KRUK Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for, 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.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2019 (PLN '000)	Sep 30 2020 (PLN '000)		
Goodwill	47,206	22,631	10.16	<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> <p>In the reporting period, the amount of goodwill impairment was PLN 25,051 thousand.</p>
Loans	214,617	206,878	9	<p>Loans advanced by the KRUK Group are measured at amortised cost, using the effective interest rate method, and recognised net of expected credit losses. Expected credit losses are part of the estimate.</p> <p>They are estimated on the basis of expected cash flows. Changes in credit losses are recognised as income.</p>
Lease liabilities and right-of-use assets	55,964	71,339	10.10	<p>The application of IFRS 16 requires making estimates and calculations that affect 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 lease term, • determining the marginal interest rates to be used to discount future cash flows, • identifying useful lives and determining amortisation rates for the right-of-use assets.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2019 (PLN '000)	Sep 30 2020 (PLN '000)		
Provisions	7,156	24,319	10.20	As at September 30th 2020, the Group assessed the legal risk arising from the CJUE ruling on consumer loans and estimated the possible amount of cash outflow for the reimbursement of early repayment fees to clients. The estimates required the Group to make expert assumptions, primarily concerning the scale of complaints and the amounts refunded prior to the CJEU judgment as well as the effect and the expected scale of prepayments and future refunds on on-balance sheet exposures. The estimates involve a certain amount of uncertainty.

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	Dec 31 2019 (PLN '000)	Sep 30 2020 (PLN '000)		
Deferred tax liabilities	6,498	59,344	10.9	<p>As the KRUK Group is able to control the timing of temporary differences with respect to subsidiaries, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years).</p> <p>The Kruk Group assesses the recoverability of deferred tax assets.</p>
Investments	96,936	85,453	9	<p>The KRUK Group determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios at ProsperoCapital S.à r.l on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture, and therefore disclosed the transaction in the consolidated financial statements as a proportional share in the company's assets and liabilities rather than an equity-accounted transaction.</p>
Functional currency at InvestCapital	7,121	81,100		<p>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.</p>

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 2020 to September 30th 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 September 30th 2020

	Poland Poland excluding Wonga.pl ³	Wonga.pl ³	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	392,280	57,808	196,275	77,465	67,774	-	791,602
Purchased debt portfolios	358,543	-	185,015	69,787	60,173	-	673,518
including revaluation of debt portfolios	(43,681)	-	(53,362)	(74,263)	(42,768)	-	(214,074)
Credit management services	16,543	-	9,456	7,678	7,601	-	41,278
Other products	17,194	57,808	1,804	-	-	-	76,806
Direct and indirect costs							(440,574)
Purchased debt portfolios	-	-	-	-	-	-	(331,824)
Credit management services	-	-	-	-	-	-	(56,194)
Other products	-	-	-	-	-	-	(52,556)
Gross profit¹							351,028
Purchased debt portfolios	-	-	-	-	-	-	341,694
Credit management services	-	-	-	-	-	-	(14,916)
Other products	-	-	-	-	-	-	24,250
Administrative expenses	-	-	-	-	-	-	(115,245)
Other income	-	-	-	-	-	-	17,875
Other expenses (unallocated)	-	-	-	-	-	-	(11,767)
EBITDA²	198,618	10,826	127,805	(31,678)	(32,388)	(31,291)	241,892
Depreciation and amortisation	-	-	-	-	-	-	(34,669)

Finance income/(costs)	-	-	-	-	-	-	(98,201)
Profit before tax	-	-	-	-	-	-	109,022
Income tax	-	-	-	-	-	-	(74,575)
Net profit	-	-	-	-	-	-	34,447
Carrying amount of debt portfolios	1,687,936	-	884,323	748,785	456,035	-	3,777,079
Carrying amount of loans	31,968	169,697	5,213	-	-	-	206,878
Cash recoveries	637,633	-	382,116	182,166	144,330	-	1,346,246

For the financial year ended December 31st 2019

	Poland		Romania	Italy	Other foreign markets	Head Office	TOTAL
	Poland excluding Wonga.pl ³	Wonga.pl ³					
Revenue	565,719	36,032	399,844	171,970	90,606	-	1,264,171
Purchased debt portfolios	516,297	-	385,069	159,967	77,005	-	1,138,338
including revaluation of debt portfolios	35,709	-	103,783	(13,995)	(64,533)	-	60,964
Credit management services	25,447	-	14,161	12,003*	13,601	-	65,212*
Other products	23,975	36,032	614	-	-	-	60,621
Direct and indirect costs							(599,136)
Purchased debt portfolios	-	-	-	-	-	-	(477,676)
Credit management services	-	-	-	-	-	-	(66,488)*
Other products	-	-	-	-	-	-	(54,973)
Gross profit¹							665,035
Purchased debt portfolios	-	-	-	-	-	-	660,663
Credit management services	-	-	-	-	-	-	(1,276)

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Other products	-	-	-	-	-	-	5,648
Administrative expenses	-	-	-	-	-	-	(178,282)
Other income	-	-	-	-	-	-	8,687
Other expenses (unallocated)	-	-	-	-	-	-	(11,056)
EBITDA ²	318,158	(9,723)	294,151	(6,830)	(37,883)	(73,489)	484,384
Depreciation and amortisation	-	-	-	-	-	-	(44,043)
Finance income/(costs)	-	-	-	-	-	-	(126,130)
Profit before tax	-	-	-	-	-	-	314,210
Income tax	-	-	-	-	-	-	(37,153)
Net profit	-	-	-	-	-	-	277,057
Carrying amount of debt portfolios	1,883,927	-	994,380	811,754	506,760	-	4,196,821
Carrying amount of loans	41,254	167,898	5,465				214,617
Cash recoveries	820,300	-	560,524	184,605	217,013	-	1,782,443

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

For the reporting period ended September 30th 2019

	Poland Poland excluding Wonga.pl ³	Poland Wonga.pl ³	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	433,681	27,126	293,004	112,463	81,849	-	948,124
Purchased debt portfolios	394,528	-	282,436	102,965	71,715	-	851,645
including revaluation of debt portfolios	40,219	-	79,639	(27,149)	(39,976)	-	52,732

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Credit management services	19,231	-	9,943	9,498	10,135	-	48,805
Other products	19,922	27,126	625	-	-	-	47,673
Direct and indirect costs							(422,660)
Purchased debt portfolios	-	-	-	-	-	-	(349,749)
Credit management services	-	-	-	-	-	-	(40,892)
Other products	-	-	-	-	-	-	(32,019)
							-
Gross profit¹							525,464
Purchased debt portfolios	-	-	-	-	-	-	501,895
Credit management services	-	-	-	-	-	-	7,914
Other products	-	-	-	-	-	-	15,655
Administrative expenses	-	-	-	-	-	-	(127,210)
Other income	-	-	-	-	-	-	4,325
Other expenses (unallocated)	-	-	-	-	-	-	(8,507)
EBITDA²	256,622	2,023	217,779	(15,006)	(11,680)	(55,666)	394,072
Depreciation and amortisation	-	-	-	-	-	-	(32,783)
Finance income/(costs)	-	-	-	-	-	-	(102,367)
Profit before tax	-	-	-	-	-	-	258,922
Income tax	-	-	-	-	-	-	(14,100)
Net profit	-	-	-	-	-	-	244,822
Carrying amount of debt portfolios	1,804,202	-	986,459	730,254	529,879	-	4,050,793
Carrying amount of loans	42,960	146,646	5,500	-	-	-	195,106
Cash recoveries	597,646	-	414,078	127,965	167,514	-	1,307,204

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 cyclical nature 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

Investments measured at amortised cost

PLN '000	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2019 unaudited
Investments in debt portfolios	3,777,079	4,196,821	4,050,793
Loans	206,878	214,617	195,106
	3,983,956	4,411,438	4,245,899

Debt portfolios

In the reporting period, the Group invested PLN 112,601 thousand in debt portfolios (nine months to September 30th 2019: PLN 391,920 thousand; 2019: PLN 780,998 thousand), while the amount of collections was PLN 1,346,246 thousand (nine months to September 30th 2019: PLN 1,307,204 thousand; 2019: 1,782,443 thousand). Changes in the estimated value of debt portfolios are presented below.

Investments in debt portfolios

PLN '000	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2019 unaudited
Unsecured portfolios	3,049,112	3,381,998	3,257,427
Secured portfolios	727,967	814,823	793,366
	3,777,079	4,196,821	4,050,793

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

	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2019 unaudited
Discount rate			
- risk premium ¹	8.10% - 170.19%	8.10% - 113.17%	8.10% - 420.22%
Period for which collections have been estimated	Oct 2020–Dec 2036	Jan 2020–Dec 2034	Oct 2019–Jun 2035
Nominal value of expected future collections	6,800,596	7,563,217	7,136,785

¹ Applicable to 99% of debt portfolios.*Projected schedule of collections from debt portfolios (undiscounted value):*

PLN '000	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2019 unaudited
Period			
Up to 12 months	1,487,598	1,662,753	1,650,795
From 1 to 2 years	1,447,641	1,585,210	1,566,290
From 2 to 3 years	1,190,599	1,277,781	1,256,571
From 3 to 4 years	836,848	938,026	887,226
From 4 to 5 years	596,172	706,581	609,279
Over 5 years	1,241,738	1,392,865	1,166,624
	6,800,596	7,563,217	7,136,785

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

PLN '000

Carrying amount of investments in debt portfolios as at Jan 1 2019	4,077,718
Purchase of debt portfolios	391,920
Cash recoveries	(1,307,204)
Carrying amount of foreclosed property	
Increase/(decrease) in liabilities to indebted persons due to overpayments	2,533
Valuation of loyalty scheme	3,651
Revenue from purchased debt portfolios (interest and revaluation)	851,644
Translation differences on debt portfolios	30,530
Carrying amount of investments in debt portfolios as at Sep 30 2019	4,050,793

PLN '000

Carrying amount of investments in debt portfolios as at Jan 1 2019	4,077,718
Purchase of debt portfolios	780,998
Cash recoveries	(1,782,443)
Increase/(decrease) in liabilities to indebted persons due to overpayments	4,988
Valuation of loyalty scheme	4,456
Revenue from purchased debt portfolios (interest and revaluation)	1,138,338
Translation differences on debt portfolios	(27,234)
Carrying amount of investments in debt portfolios as at Dec 31 2019	4,196,821

Carrying amount of investments in debt portfolios as at Jan 1 2020	4,196,821
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Purchase of debt portfolios	112,601
Purchase price adjustment for discount	(100)
Cash recoveries	(1,346,246)
Increase/(decrease) in liabilities to indebted persons due to overpayments	4,385
Valuation of loyalty scheme	8,083
Revenue from purchased debt portfolios (interest and revaluation)	673,518
Translation differences on debt portfolios	128,016
Carrying amount of investments in debt portfolios as at Sep 30 2020	3,777,079

ProsperoCapital is a party to a joint arrangement. As at September 30th 2020, the value of the KRUK Group's investment in the joint operation referred to above, disclosed in the consolidated statement of financial position, was PLN 85,453 thousand (December 31st 2019: PLN 96,936 thousand), while revenue shown in the consolidated statement of profit or loss was PLN 24,254 thousand (2019: PLN 50,617 thousand).

Sensitivity analysis – revision of projections

The 1% increase in all projected collections would result in an increase in the value of portfolios and thus in net profit/(loss) for the reporting period by PLN 33,135 thousand, while the 1% decrease in all projected collections would result in a decrease in the value of portfolios, thus reducing net profit/(loss) by PLN 33,135 thousand for the data as at September 30th 2020 (a PLN 36,007 thousand increase/decrease, respectively, for the data as at December 31st 2019).

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in collections by 100 bps	decrease in collections by 100 bps	increase in collections by 100 bps	decrease in collections by 100 bps
September 30th 2020				
Investments in debt portfolios	33,135	(33,135)	-	-
Dec 31 2019				
Investments in debt portfolios	36,007	(36,007)	-	-

Sensitivity analysis – time horizon

The sensitivity analysis assumes extension or reduction of the projection period and a simultaneous increase or decrease in projected collections (for one-year extension projected collections increased by PLN 17,798 thousand, while for one-year reduction projected collections decreased by PLN 54,216 thousand; 2019: PLN 32,550 thousand and PLN 78,689 thousand, respectively).

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one year	reduction by one year	extension by one year	reduction by one year
September 30th 2020				
Investments in debt portfolios	1,178	(4,592)	-	-
Dec 31 2019				
Investments in debt portfolios	1,977	(6,166)	-	-

Loans

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

IFRS 9 classification	Carrying amount as at Sep 30 2020	Carrying amount as at Dec 31 2019
Loans		
Basket 1	148,103	164,886
Basket 2	31,221	28,059
Basket 3	24,017	19,263
POCI loans	3,537	2,408
	<u>206,878</u>	<u>214,617</u>

For a detailed breakdown, see further on in these notes to the interim condensed consolidated financial statements.

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

PLN '000

Carrying amount of loans as at Jan 1 2019	40,807
Loans acquired with Wonga.pl Sp. z o.o., at fair value	87,373
New disbursements	245,910
Repayments	(213,625)
Income from loans	50,376
Loss allowance for expected credit losses	(15,311)
Currency translation differences	(424)
Carrying amount of loans as at Sep 30 2019	195,106
Carrying amount of loans as at Jan 1 2019	40,807
Loans acquired with Wonga.pl Sp. z o.o., at fair value	87,373
New disbursements	327,599
Repayments	(290,167)
Income from loans	87,444
Loss allowance for expected credit losses	(30,603)
Sale of loans*	(7,346)
Currency translation differences	(490)
Carrying amount of loans as at Dec 31 2019	214,617

Carrying amount of loans as at Jan 1 2020	214,617
New disbursements	216,903
Repayments	(290,849)
Income from loans	93,512
Loss allowance for expected credit losses	(23,947)
Sale of loans*	(3,606)
Currency translation differences	247
Carrying amount of loans as at Sep 30 2020	206,878

**Sale involving solely non-performing loans (NPL), without affecting the adopted business model or recognition of loans advanced as measured at amortised cost.*

Below are presented changes in impairment losses on loans.

PLN '000	Jan 1-Sep 30 2020		
	Basket 1	Basket 2	Basket 3
Loss allowance as at Jan 1	21,298	6,730	33,293
Loss allowance recognised in the reporting period	7,531	-	-
Transfer from basket 1 to basket 2	(4,331)	4,331	-
Transfer from basket 1 to basket 3	(7,015)	-	7,015
Transfer from basket 2 to basket 1	(80)	80	-
Transfer from basket 2 to basket 3	-	(4,253)	4,253
Transfer from basket 3 to basket 1	50	-	(50)
Transfer from basket 3 to basket 2	-	0	(0)
Reversal of allowance for expected credit losses	-	(699)	(9,247)
Loss allowance as at Sep 30	17,452	6,188	35,264

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 22.2% of gross loans.

Sensitivity analysis – revision of projections

The note presents the effect of a change in projected collections on the net value of the loan portfolio as the effect of the change on net profit/(loss).

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in collections by 100 bps	decrease in collections by 100 bps	increase in collections by 100 bps	decrease in collections by 100 bps
September 30th 2020				
Loans	2,124	(2,123)	-	-
Dec 31 2019				
Loans	2,143	(2,144)	-	-

Sensitivity analysis – time horizon

The note presents the effect of extending or reducing the repayment projection period by one month on the net value of the loan portfolio as the effect of the change on net profit or loss.

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one month	reduction by one month	extension by one month	reduction by one month
September 30th 2020				
Loans	(5,940)	3,888	-	-
Dec 31 2019				
Loans	(3,395)	1,848	-	-

Inventories (including property)

As a result of the reclassification made, property is now recognised by the Group under *Inventories*:

PLN '000

	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 2019 unaudited
Real property	34,470	34,655	36,209
Other inventories	21	37	259
	34,491	34,692	36,468

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

PLN '000

Carrying amount of property held as at Jan 1 2019	35,188
Carrying amount of foreclosed property	18,736
Carrying amount of property sold	(17,424)
Income from sale of property	(292)
Value of property held as at Sep 30 2019	36,209
 Carrying amount of property held as at Jan 1 2019	 35,188
Carrying amount of foreclosed property	25,548
Carrying amount of property sold	(25,092)
Income from sale of property	(989)
Carrying amount of property held as at Dec 31 2019	34,655
 Carrying amount of property held as at Jan 1 2020	 34,655
Carrying amount of foreclosed property	12,239
Carrying amount of property sold	(12,606)
Income from sale of property	182
Carrying amount of property held as at Sep 30 2020	34,470

Property is measured at the lower of cost and net realisable 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-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Revenue from purchased debt portfolios	673,518	294,555	851,644	287,762
Revenue from credit management services	41,278	14,197	48,806	14,696
Revenue from other services	76,806	26,424	47,673	24,030
	791,602	335,176	948,124	326,489

Income from financial assets measured at amortised cost

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Revenue from purchased debt portfolios	673,518	294,555	851,644	287,762
Income from loans	66,207	24,274	34,641	30,854
	739,725	318,829	886,285	318,616

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-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Interest income	737,562	234,596	732,068	246,781
Other income from purchased debt*	133,330	70,425	45,272	10,570
Revaluation of debt portfolios	(214,074)	(14,187)	52,732	21,371
Gain/(loss) on sale of debts	3,352	1,996	3,198	1,314
Foreclosure of property	13,166	1,520	18,666	7,434
Gain/(loss) on sale of property	182	205	(292)	292
	673,518	294,555	851,644	287,762

* 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-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Revision of repayment projections	(202,892)	(10,140)	64,515	22,859
Foreign currency gains/(losses)	(11,182)	(4,047)	(11,782)	(1,487)
	(214,074)	(14,187)	52,732	21,371

For further information on the revaluation as at September 30th 2020, see section 2 in part III of this report. *Additional information on the operations of the KRUK Group.*

Income from loans

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Interest income	93,512	27,797	50,376	44,989
Loss allowance for expected credit losses	(23,947)	(3,567)	(15,311)	(14,009)
Profit/(loss) on loans	(3,606)	-	-	-
Foreign currency gains/(losses)	247	44	(424)	(126)
	66,207	24,274	34,641	30,854

10.2. Other income

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Grants	8,946	2,656	-	-
Adjustment to valuation of stock option plan *	5,538	-	-	-
Other markets	1,106	452	1,025	550
Settlement of lease payments under terminated contracts	1,050	-	-	-
Gain on sale of property, plant and equipment	525	(43)	297	(31)
Recovery of written-off receivables and expenses	320	116	-	-
Compensation for motor damage	290	94	504	193
Other cooperation	108	25	-	-
Re-billed costs of services and court fees	(8)	(16)	2,499	2,090
	17,875	3,284	4,325	2,800

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

In the reporting period, the Group companies received grants from the Labour Office paid out of the Guaranteed Employee Benefits Fund under the employment protection agreement to subsidise the

remuneration of employees affected by economic downtime or reduced working hours as a result of the Covid-19 epidemic. In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the Group applies the income approach, recognising grants as a separate item of other income when there is reasonable assurance that the condition for obtaining a grant will be fulfilled and the grant will be received.

10.3. Services

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Credit management services ¹	(27,634)	(8,029)	(22,922)	(8,950)
IT services	(13,404)	(4,684)	(9,441)	(3,448)
Legal assistance services ²	(12,805)	(4,342)	(18,215)	(7,341)
Administrative and accounting support services	(11,526)	(3,710)	(10,969)	(5,525)
Banking services ³	(7,721)	(2,655)	(7,528)	(2,525)
Postal and courier services	(6,786)	(2,142)	(11,855)	(4,368)
Space rental and service charges	(5,680)	(1,891)	(6,032)	(2,257)
Communications services	(5,067)	(1,649)	(5,055)	(1,602)
Marketing and management services	(3,643)	(901)	-	2,255
Printing services	(1,525)	(452)	(2,234)	(655)
Other auxiliary services	(1,152)	(278)	(1,268)	(361)
Security	(1,210)	(437)	(1,310)	(467)
Repair of vehicles	(887)	(268)	(944)	(351)
Repair and maintenance services	(413)	(196)	(260)	(99)
Other rental	(59)	108	(720)	(201)
Recruitment services	(307)	(193)	(649)	(244)
Packing services	(145)	(65)	(270)	(74)
Transport services	(14)	(5)	(28)	(10)
	(99,978)	(31,789)	(99,700)	(36,223)

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

² Legal assistance mainly relates to debt portfolio management

³ Costs of servicing bank accounts, transcollect and direct debit services

10.4. Employee benefits expense

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Salaries and wages	(197,728)	(64,133)	(206,533)	(70,502)
Old-age and disability pension contributions	(14,993)	(4,808)	(15,739)	(5,332)
Other social security contributions	(33,320)	(10,374)	(30,959)	(9,068)
Contribution to the State Fund for the Disabled	(1,273)	(430)	(1,308)	(503)
Equity-settled cost of stock option plan	(3,116)	(1,238)	(8,709)	(2,379)
	(250,430)	(80,983)	(263,248)	(87,784)

10.5. Other expenses

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Court fees	(128,255)	(40,899)	(120,487)	(38,996)
Goodwill impairment	(25,051)	-	-	-
Taxes and charges	(27,556)	(9,141)	(34,408)	(8,930)
Provision for possible differences straight-line basis settlement	(17,163)	(4,820)	-	-
Raw materials and consumables used	(6,198)	(2,274)	(8,849)	(2,915)
Advertising	(3,968)	(243)	(15,389)	(8,316)
Business trips	(1,385)	(272)	(4,219)	(1,317)
Staff training	(1,050)	(167)	(2,692)	(817)
Motor insurance	(942)	(259)	(837)	(269)
Non-compete agreements	(564)	(19)	-	-
Costs of services and fees to be re-billed	(607)	(144)	(2,081)	(1,450)
Property insurance	(501)	(157)	(660)	(235)
Membership fees	(343)	(70)	-	-
Losses caused by motor damage	(311)	(102)	(726)	(1)
Refund of litigation costs	(148)	-	(501)	(147)
Non-deductible VAT	(145)	(31)	(356)	(101)
Entertainment expenses	(149)	(38)	(1,012)	(164)
Impairment losses on receivables	(28)	-	(7)	-
Other consultancy services	-	-	(390)	-
Other markets	(2,812)	(775)	(2,815)	(805)
	(217,176)	(59,411)	(195,429)	(64,465)

10.6. Finance income

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Interest income on bank deposits	101	36	147	74
	101	36	147	74

10.7. Finance costs

PLN '000

	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Interest and commission expense on financial liabilities measured at amortised cost	(78,511)	(21,345)	(87,030)	(31,752)
<i>including interest</i>	(68,310)	(18,835)	(76,362)	(26,429)
Net foreign exchange losses	(7,191)	(3,368)	(11,044)	(9,554)
	(2,144)	(1,384)	(2,882)	(3,820)
Interest income/expense on derivative instruments – IRS				
Interest income/expense on derivative instruments – FORWARD	(916)	-	-	-
Ineffective portion of remeasurement of instruments – CIRS	(9,541)	(2,175)	(1,558)	(1,368)
	(98,302)	(28,272)	(102,514)	(46,494)

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

PLN '000	Note	Jan 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited
Realised exchange gains/(losses)	10.7	(2,489)	(197)
Unrealised exchange gains/(losses)	10.7	(4,702)	(10,847)
Settlement of forward contracts	10.7	(916)	-
Revaluation of debt portfolios due to exchange rate movements	10.1	(11,182)	(11,782)
Remeasurement of loans due to exchange rate movements	10.1	247	-
		(19,041)	(22,826)

10.9. Income tax**Income tax recognised in profit or loss and total comprehensive income for period**

PLN '000	Jan 1-Sep 30 2020 unaudited	Jul 1-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Jul 1-Sep 30 2019 unaudited
Current income tax				
Current income tax payable	(21,729)	(13,143)	(24,005)	(37,229)
Adjustment to income tax for 2014	-	-	-	-
Deferred income tax				
Related to temporary differences and their reversal	(52,846)	(59,647)	9,905	14,059
Income tax recognised in profit or loss	(74,575)	(72,790)	(14,100)	(23,171)
Income tax recognised in other comprehensive income	-	-	-	-
	(74,575)	(72,790)	(14,100)	(23,171)

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-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited
Profit before tax	109,023	258,921
Tax calculated at the Parent's rate (19%)	(20,714)	(49,195)
Effect of application of other tax rates abroad and effect of deferred tax	7,692	6,706
Effect of non-deductible expenses/non-taxable income*	(61,553)	56,589

Income tax recognised in profit or loss	(74,575)	14,100
Effective tax rate (%)	68.40%	-5.45%

** including 58 936 thousand PLN in the created deferred tax provision resulting from the change in payments of income from subsidiaries to KRUK S.A. assumed in the next 36 months which is responsible for 90% of the impact on the effective tax rate for the period 01/01/2020 - 30/09/2020.*

Tax risk

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

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

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

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

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

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

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	
	Sep 30 2020	Dec 31 2019	Sep 30 2020	Dec 31 2019	Sep 30 2020	Dec 31 2019
Property, plant and equipment	6,109	4,513	(5,980)	(4,909)	129	(396)
Intangible assets	-	-	(1,721)	(4,841)	(1,721)	(4,841)
Tax losses deductible in future periods	5,535	11,323	-	-	5,535	11,323
Trade and other receivables	-	121	(204)	(243)	(204)	(122)
Borrowings and other debt instruments	21,016	18,496	-	-	21,016	18,496
Employee benefit obligations	2,013	2,391	-	-	2,013	2,391
Provisions and liabilities	15	3,656	-	-	15	3,656
Investments	46,540	21,429	(132,667)	(58,435)	(86,127)	(37,006)
Deferred tax assets/liabilities	81,228	61,930	(140,572)	(68,428)	(59,344)	(6,498)
Deferred tax assets offset against liabilities	(81,228)	(61,930)	81,228	61,930	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(59,344)	(6,498)	(59,344)	(6,498)

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 Sep 30 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)	525	129	(421)	25	-	(396)
Intangible assets	(4,841)	3,120	(1,721)	(2,627)	(2,214)	-	(4,841)
Tax losses deductible in future periods	11,323	(5,788)	5,535	1,482	9,842	-	11,323
Trade and other receivables	(122)	(82)	(204)	(173)	51	-	(122)
Borrowings and other debt instruments	18,496	2,521	21,016	10,675	7,821	-	18,496
Employee benefit obligations	2,391	(378)	2,013	2,001	390	-	2,391
Provisions and liabilities	3,656	(3,642)	15	2,265	1,391	-	3,656
Investments	(37,006)	(49,121)	(86,127)	(22,384)	(22,861)	8,239	(37,006)
	(6,498)	(52,846)	(59,344)	(9,182)	(5,282)	8,239	(6,498)

The change due to temporary differences recognised in profit or loss for the period was PLN 52,846 thousand.

The Group benefits from the regulation provided in IAS 12 and does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future and it is probable that the temporary differences will not reverse in the next 36 months. The total amount of temporary differences underlying the unrecognised deferred tax liability on retained earnings as at September 30th 2020 was PLN 1,347,516 thousand (as at December 31st 2019: PLN 1,250,455 thousand).

10.10. Borrowings, debt securities and leases

PLN '000

	Sep 30 2020 unaudited	Dec 31 2019 restated	Sep 30 2019 unaudited restated
Non-current liabilities			
Secured borrowings	648,013	1,145,889	947,671
Liabilities under debt securities (unsecured)	905,459	1,267,601	1,346,252
Lease liabilities	57,915	44,779	38,977
	<u>1,611,387</u>	<u>2,458,269</u>	<u>2,332,900</u>
Current liabilities			
Current portion of secured borrowings	45,857	134,353	95,165
Liabilities under debt securities (unsecured)	477,520	93,575	92,647
Current portion of lease liabilities	13,424	19,530	29,544
	<u>536,801</u>	<u>247,458</u>	<u>217,355</u>

Terms and repayment schedule of borrowings, debt securities and leases

PLN '000	Currency	Nominal interest rate	Maturity of the last liability	Sep 30 2020 unaudited	Dec 31 2019	Sep 30 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	693,870	1,280,242	1,042,835
Liabilities under debt securities (unsecured)	PLN EUR	3M WIBOR + 2.9-4.0pp 3.59 – 4.80%	2025	1,382,979	1,361,176	1,438,898
Lease liabilities	EUR/PLN CZK	3M WIBOR or 1M EURIBOR + margin of 1.5-3.4pp; 3.00 - 4.03%	2030	71,339	64,309	68,521
				<u>2,148,188</u>	<u>2,705,727</u>	<u>2,550,255</u>

10.11. Derivatives

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

Open outstanding CIRS contracts held by KRUK Group companies as at September 30th 2020:

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

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

10.12. Hedging instruments

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.

Open outstanding IRS contracts held by KRUK Group companies as at September 30th 2020, with a total value of 530,000 thousand PLN:

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

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

	Sep 30 2020				Dec 31 2019				Item in the statement of financial position	Type of security
	Assets	Liabilities	Notional amount	Change in fair value used to determine ineffectiveness	Assets	Liabilities	Notional amount	Change in fair value used to determine ineffectiveness		
Instrument type:										
IRS	-	11,596	PLN 275,000	7,672	-	3,924	PLN 275,000	3,924	Derivatives	Cash flow hedges
IRS	-	9,448	PLN 255,000	9,868	420	-	PLN 255,000	420	Derivatives	Cash flow hedges
	-	21,045		17,541	420	3,924		4,344		

PLN '000

	Notional amount as at Sep 30 2020				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	-	-	(200,000)	(330,000)	-
floating payment PLN	-	-	200,000	330,000	-
	Nominal amount as at Dec 31 2019				
	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	(530,000)	-
floating payment PLN	-	-	-	530,000	-

PLN '000

Disclosure of the hedged item

	Nominal amount of the hedged item	Change in the fair value of the hedged item	Reserve for measurement of continuing hedges	Reserve (unsettled) for measurement of discontinued hedges
Cash flow hedges	530,000	21,045	(21,045)	3,603
Cash flow hedges	-	-	-	-

	Jan 1-Sep 30 2020		
	Hedge of future cash flows (interest rate risk)	Hedge of net investment in foreign operations	Total hedge reserve
Cash flow hedge reserve			
Hedge reserve as at January 1st 2020	(3,525)	3,603	78
Measurement of instruments charged to capital reserves	(16,123)	-	(16,123)
Amount reclassified to profit or loss during the period	(1,397)	-	(1,397)
- Interest income / (expense)	(1,397)	-	(1,397)
Hedge reserve as at September 30th 2020	(21,045)	3,603	(17,442)

	Jan 1 2019–Dec 31 2020		
	Hedge of future cash flows (interest rate risk)	Hedge of net investment in foreign operations	Total hedge reserve
Cash flow hedge reserve			
Hedge reserve as at January 1st 2019	(3,869)	-	(3,869)
Measurement of instruments charged to capital reserves	(1,216)	4,477	3,261
Amount reclassified to profit or loss during the period	1,560	(874)	686
- Interest income	1,560	-	1,560
- Reclassification of exchange differences	-	(874)	(874)
Hedge reserve as at December 31st 2019	(3,525)	3,603	78

10.13. Earnings per share

Basic earnings per share

'000

	Jan 1-Sep 30 2020 unaudited	Jan 1-Dec 31 2019	Jan 1-Sep 30 2019 unaudited
Number of ordinary shares as at Jan 1	18,972	18,887	18,887
Effect of cancellation and issue	-	29	24
Weighted average number of ordinary shares at end of reporting period	18,972	18,916	18,911
<i>PLN</i>			
Earnings per share	1.82	14.61	12.93

Diluted earnings per share

'000

	Jan 1-Sep 30 2020 unaudited	Jan 1-Dec 31 2019	Jan 1-Sep 30 2019 unaudited
Number of ordinary shares as at Jan 1	18,972	18,916	18,911
Effect of issue of unregistered shares not subscribed for	291	410	406
Weighted average number of ordinary shares at end of reporting period (diluted)	19,263	19,326	19,317
<i>PLN</i>			
Earnings per share (diluted)	1.79	14.30	12.66

10.14. Current and non-current items of the statement of financial position**As at March 31st 2020**

PLN '000

	Sep 30 2020 unaudited	Dec 31 2019 restated	Sep 30 2019 unaudited restated
Assets			
Non-current assets			
Property, plant and equipment	85,434	82,973	86,470
Other intangible assets	48,216	50,252	51,016
Goodwill	22,631	47,206	63,184
Derivatives	-	3,799	32
Hedging instruments	-	420	-
Deferred tax asset	-	-	3,052
Total non-current assets	156,281	184,650	203,754
Current assets			
Inventories	34,491	34,692	36,467
Investments	3,983,956	4,411,438	4,245,900
Trade receivables	27,745	23,988	25,814
Other receivables	39,779	31,852	38,678
Other assets	3,409	3,020	6,039
Cash and cash equivalents	265,725	150,274	165,131
Total current assets	4,355,105	4,655,264	4,518,029
Total assets	4,511,386	4,839,914	4,721,783
Equity and liabilities			
Equity			
Share capital	18,972	18,972	18,931
Share premium	307,192	307,192	303,711
Cash flow hedging reserve	(17,441)	78	(8,840)
Translation reserve	60,333	(30,219)	21,189
Other capital reserves	197,210	104,582	103,633
Retained earnings	1,497,322	1,557,821	1,526,252
Equity attributable to owners of the Parent	2,063,587	1,958,426	1,964,876
Non-controlling interests	284	667	225
Total equity	2,063,871	1,959,093	1,965,101
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	1,611,387	2,458,269	2,332,900
Deferred tax liability	59,344	6,498	-
Derivatives	6,932	-	5,062
Hedging instruments	21,044	3,924	4,720
Total non-current liabilities	1,698,707	2,468,691	2,342,682
Current liabilities			
Current liabilities under borrowings and other debt instruments	536,801	247,458	217,355
Trade and other payables	128,286	101,303	131,816
Income tax payable	7,828	6,673	4,022

	Employee benefit obligations	51,574	49,539	60,807
	Provisions	24,319	7,156	-
Total current liabilities		748,808	412,130	414,002
Total liabilities		2,447,515	2,880,821	2,756,683
Total equity and liabilities		4,511,386	4,839,914	4,721,783

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

10.15. Right of use

PLN '000

	Sep 30 2020	Dec 31 2019
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	48,598	56,079
Plant and equipment	308	492
Vehicles	16,423	18,788
	<u>65,329</u>	<u>75,359</u>
Cost of amortisation of right-of-use assets, by class of underlying asset		
Buildings and structures	(12,278)	(16,063)
Plant and equipment	(125)	(182)
Vehicles	(5,095)	(8,872)
	<u>(17,499)</u>	<u>(25,118)</u>
Increase in right-of-use assets	16,792	11,097
Right-of-use assets as at acquisition of Wonga.pl	-	3,734
Decrease in right-of-use assets	(984)	(254)
Translation differences	(2,567)	511
Carrying amount of right-of-use assets, by class of underlying asset at end of period		
Buildings and structures	54,943	48,598
Plant and equipment	174	308
Vehicles	11,088	16,423
	<u>66,204</u>	<u>65,329</u>
Interest expense relating to lease liabilities	1,941	2,767
Cost relating to variable lease payments not included in the measurement of lease liabilities	9	33
Total cash outflow in connection with leases	19,693	18,593

10.16. 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	-	-	476	-	-	476
Gross carrying amount as at Sep 30 2020	299	4,921	46,658	725	8,191	60,794
Impairment losses						
Impairment loss as at Jan 1 2019	-	-	-	-	-	-
Increase	-	(4,921)	-	-	(8,191)	(13,112)
Decrease	-	-	-	-	-	-
Impairment loss as at Dec 31 2019	-	(4,921)	-	-	(8,191)	(13,112)
Impairment loss as at Jan 1 2020	-	(4,921)	-	-	(8,191)	(13,112)
Increase	-	-	(25,051)	-	-	(25,051)
Decrease	-	-	-	-	-	-
Impairment loss as at Sep 30 2020	-	(4,921)	(25,051)	-	(8,191)	(38,163)
Net carrying amount						
As at Jan 1 2019	299	5,002	47,977	725	8,007	62,010
As at Dec 31 2019	299	-	46,182	725	-	47,206
As at Jan 1 2020	299	-	46,182	725	-	47,206
As at Sep 30 2020	299	-	21,607	725	-	22,631

Impairment testing of cash-generating units which include goodwill

Recoverable amount of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units. In order to perform goodwill tests, cash-generating units associated with given goodwill were defined first. In the case of Espand Soluciones de Gestion S.L., which was acquired in 2016 and subsequently merged with

KRUK España S.L., the cash-generating unit in 2017 was the credit management business (debt collection services for unrelated undertakings), as such was the company's business profile prior to the acquisition and these activities were continued. The key assumption underlying the calculation of recoverable amount is the level of margin earned on the credit management services provided to clients. The assumptions adopted are based on historical performance, current knowledge of the credit management market and the potential of operating structures.

Next, a four-and-a-half-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 the cost of equity, the Group applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets (the weighted average cost of capital for the debt collection industry was 6.56% as at June 30th 2020 and 6.82% as at December 31st 2019). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 1.06% for Spain (as at December 31st 2019: 1.49%).

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In the nine months ended September 30th 2020, following a decrease in projected future cash flows from the credit management business (cash-generating unit), an impairment loss of PLN 25,051 thousand was recorded on Espand's goodwill.

10.17. Trade and other receivables

Trade receivables

PLN '000

Trade receivables

	Sep 30 2020	Dec 31 2019
Long-term	-	-
Short-term	27,745	23,988
	<u>27,745</u>	<u>23,988</u>

Other receivables

PLN '000

	Sep 30 2020	Dec 31 2019
Taxes receivable (other than income tax)	18,188	16,341
Receivables under security deposits and bid bonds	12,914	9,488
Receivables under collected debts	2,966	5,365
Other receivables	5,597	573
Receivables for court fees and stamp duty	114	85
	<u>39,779</u>	<u>31,852</u>

10.18. Cash and cash equivalents

PLN '000

	Sep 30 2020	Dec 31 2019
Cash in hand	700	233
Cash in current accounts	265,025	150,041
	<u>265,725</u>	<u>150,274</u>

10.19. Employee benefit obligations and provisions

PLN '000

	Sep 30 2020	Dec 31 2019
Salaries and wages payable	17,724	17,110
Social benefit obligations	11,958	11,866
Provisions for retirement gratuity payments	12,209	10,196
Accrued holiday entitlements	6,318	7,719
Personal income tax	3,157	2,350
Special accounts	207	189
Accrued gratuity payments	-	109
	<u>51,574</u>	<u>49,539</u>

10.20. Trade and other payables

PLN '000

	Sep 30 2020	Dec 31 2019
Trade payables	75,584	45,671
Other liabilities	12,510	16,829
Deferred income	16,529	13,490
Accrued expenses	3,835	10,246
Tax and duties payable	19,829	15,067
	<u>128,286</u>	<u>101,303</u>

10.21. Provisions

PLN '000

	Other provisions
Carrying amount as at Jan 1 2019	-
Provision for possible differences straight-line basis settlement	<u>7,156</u>
Carrying amount as at Dec 31 2019	<u>7,156</u>
Carrying amount as at Jan 1 2020	7,156
Provision for possible differences straight-line basis settlement	<u>17,163</u>
Carrying amount as at Sep 30 2020	<u>24,319</u>

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

In connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of fee refunds, the Group recognised a provision for the difference between the applied method of reimbursement and the straight-line method.

11. Related-party transactions

Remuneration of the management personnel - Management Board

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

<i>PLN '000</i>	Jan 1-Sep 30 2020	Jan 1-Sep 30 2019
Base pay/ managerial contract (gross)	4,559	4,290
Share based payments	3,116	8,709
	7,675	12,999

Remuneration of the Supervisory Board members

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

<i>PLN '000</i>	Jan 1-Sep 30 2020	Jan 1-Sep 30 2019
Base pay (gross)	659	651
	659	651

Other transactions with management personnel

As at September 30th 2020, members of the Management Board and persons closely related to them jointly held 10.50% of the total voting rights at the Parent's General Meeting (December 31st 2019: 11.09%).

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

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 the period January–September 2020, the Group adjusted the delinquency ratio resulting in an impairment loss on loans of PLN 5,748 thousand 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 2 in part III of this report. *Additional 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 business partners have conducted business with the Group for at least three years. In only few cases losses were incurred by the Group as a result of non-payment. Trade and other receivables mainly comprise of fees receivable in respect of debt collected for external business partners.

The Group's exposure to credit risk mainly results from individual characteristics of each business partner. The Group's largest business partner generates 1.4% (2019: 2%) of the Group's revenue. Receivables from the Group's largest business partner represented 1.4% of total gross trade receivables as at September 30th 2020 (December 31st 2019: 4.2%). Therefore, there is no significant concentration of credit risk at the Group.

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 2 in part III of this report. *Additional 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.

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

	Sep 30 2020	Dec 31 2019
Investments in debt portfolios	3,777,079	4,196,821
Loans	206,878	214,617
Trade and other receivables	67,524	55,840
	4,051,480	4,467,278

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

PLN '000

	Sep 30 2020	Dec 31 2019
Poland	1,910,890	2,117,848
Romania	907,044	1,009,917
Italy	758,394	820,505
Other foreign markets	475,153	519,008
	4,051,480	4,467,278

Quality of trade and other receivables, and of loans advanced

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

	IFRS 9 classification	Carrying amount as at Sep 30 2020	Carrying amount as at Dec 31 2019
Trade and other receivables			
	Basket 1	69,195	57,483
	Basket 2	32	32
	Basket 3	-	-
		69,227	57,515
Impairment losses			
	Basket 1	1,671	1,643
	Basket 2	32	32
	Basket 3	-	-
		1,703	1,675
Net carrying amount			
		67,524	55,840

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1-Sep 30 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	28	-	-	147	-	-
Reversal of loss allowance	-	-	-	-	(77)	-
Use of loss allowance	-	-	-	-	-	-
Loss allowance at end of the period	1,671	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 Sep 30 2020	Carrying amount as at Dec 31 2019
Loans			
Basket 1		165,555	186,183
Basket 2		37,410	34,789
Basket 3		59,282	52,556
POCI loans		3,537	2,408
		265,782	275,937
Impairment losses			
Basket 1		17,452	21,298
Basket 2		6,188	6,730
Basket 3		35,265	33,293
POCI loans		-	-
		58,905	61,320
Net carrying amount		206,878	214,617

Below are presented changes in gross carrying amount of loans:

PLN '000	Jan 1-Sep 30 2020				Jan 1-Dec 31 2019			
	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	18,379	(12,791)	(16,868)	1,128	233,055	(1,678)	(16,270)	(2,638)
Transfer from basket 1 to basket 2	(26,622)	26,622	-	-	(31,349)	31,349	-	-
Transfer from basket 1 to basket 3	(15,433)	-	15,433	-	(15,523)	-	15,523	-
Transfer from basket 2 to basket 1	2,794	(2,794)	-	-	-	-	-	-
Transfer from basket 2 to basket 3	-	(8,420)	8,420	-	-	(33,458)	33,458	-
Transfer from basket 3 to basket 1	256	-	(256)	-	-	-	-	-
Transfer from basket 3 to basket 2	-	5	(5)	-	-	-	-	-
Gross carrying amount at end of the period	165,557	37,410	59,282	3,536	186,183	34,789	52,556	2,408

Below are presented changes in impairment losses on loans.

PLN '000	Jan 1-Sep 30 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
Loss allowance recognised in the reporting period	7,531	-	-	33,556	19,175	-
Transfer from basket 1 to basket 2	(4,331)	4,331	-	(4,967)	4,967	-
Transfer from basket 1 to basket 3	(7,015)	-	7,015	(7,291)	-	7,291
Transfer from basket 2 to basket 1	(80)	80	-	-	-	-
Transfer from basket 2 to basket 3	-	(4,253)	4,253	(20,893)	20,893	-
Transfer from basket 3 to basket 1	50	-	(50)	-	-	-
Transfer from basket 3 to basket 2	-	0	(0)	-	-	-
Reversal of allowance for expected credit losses	-	(699)	(9,247)	-	-	(5,769)
Loss allowance at end of the period	17,452	6,188	35,264	21,298	6,730	33,293

As at September 30th 2020, the gross value of consumer loans was PLN 265,784 thousand (December 31st 2019: PLN 275,937 thousand). The Group recognised an impairment allowance for expected credit losses on loans of PLN 58,905 thousand as at September 30th 2020 (December 31st 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 22.2% of the gross carrying amount of 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 Sep 30 2020

PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	3,777,079	6,800,596	735,097	752,500	1,447,641	2,623,619	1,241,738
Loans	206,878	465,472	159,510	108,413	141,225	56,324	-
Secured borrowings	(693,870)	(734,964)	(10,205)	(7,237)	(11,281)	(706,241)	-
Unsecured bonds in issue	(1,382,979)	(1,482,607)	(160,770)	(358,034)	(555,763)	(408,040)	-
Lease liabilities	(71,339)	(68,769)	(11,326)	(9,723)	(17,541)	(27,479)	(2,699)
Trade and other payables	(128,286)	(128,286)	(128,286)	-	-	-	-
	1,707,482	4,851,441	584,020	485,919	1,004,282	1,538,182	1,239,039

The above amounts do not include expenditure 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 the KRUK Group's liquidity, see section 2 in part III of this report. *Additional information on the operations of the KRUK Group.*

Contractual cash flows were determined based on interest rates effective as at September 30th 2020 and December 31st 2019.

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 September 30th 2020, the undrawn revolving credit facility limit available to the Group was PLN 1,180,897 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 September 30th 2020, financial assets denominated in foreign currencies accounted for 49% of total assets, while liabilities denominated in foreign currencies represented 20% 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

	Sep 30 2020					Sep 30 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	21	1,416	8,257	-	9,694	2	142	826	-	969
Financial assets	-	-	690,982	24,674	715,655	-	-	69,098	2,467	71,566
Cash	602	3,420	15,662	2,626	22,309	60	342	1,566	263	2,231
Liabilities under borrowings and other debt instruments	-	(229,350)	-	-	(229,350)	-	(22,935)	-	-	(22,935)
Trade and other payables	(115)	(2,589)	(14,108)	(98)	(16,910)	(12)	(259)	(1,411)	(10)	(1,691)
Effect on profit/loss for period	508	(227,104)	700,792	27,202	501,398	51	(22,710)	70,079	2,720	50,140
Effect on other comprehensive income										
Receivables	-	28,274	13,902	(27,695)	14,482	-	2,827	1,390	(2,769)	1,448
Financial assets	-	1,108,148	194,121	77,821	1,380,090	-	110,815	19,412	7,782	138,009
Cash	-	59,793	15,918	6,057	81,768	-	5,979	1,592	606	8,177
Liabilities under borrowings and other debt instruments	-	(597,211)	(9,417)	(1,659)	(608,287)	-	(59,721)	(942)	(166)	(60,829)
Trade and other payables	-	(42,415)	(11,714)	(943)	(55,073)	-	(4,241)	(1,171)	(94)	(5,507)
Effect on other comprehensive income	-	556,589	202,810	53,581	812,980	-	55,659	20,281	5,358	81,298
Exposure to currency risk	508	329,485	903,602	80,783	1,314,378	51	32,949	90,360	8,078	131,438

Risk mitigation effect	-	(280,360)	-	-	(280,360)	-	(28,036)	-	-	(28,036)
Exposure to currency risk after hedging	508	49,125	903,602	62,430	1,034,018	181	4,913	90,360	6,243	103,402

PLN '000

Dec 31 2019

Dec 31 2019

	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	9	731	-	-	740	1	73	-	-	74
Financial assets	-	49,745	771,219	38,623	859,587	-	4,974	77,122	3,862	85,959
Cash	234	12,704	18,605	742	32,285	23	1,270	1,861	74	3,229
Liabilities under borrowings and other debt instruments	-	(284,621)	-	-	(284,621)	-	(28,462)	-	-	(28,462)
Trade and other payables	227	799	(4,323)	(92)	(3,389)	23	80	(432)	(9)	(339)
Effect on profit/loss for period	470	(220,643)	785,502	39,273	604,602	47	(22,064)	78,550	3,927	60,460
Effect on other comprehensive income										
Receivables	-	22,010	18,178	11	40,199	-	2,201	1,818	1	4,020
Financial assets	-	1,197,592	303,650	34,698	1,535,941	-	119,759	30,365	3,470	153,594
Cash	-	56,002	12,839	4,507	73,349	-	5,600	1,284	451	7,335
Liabilities under borrowings and other debt instruments	-	(675,684)	(28,752)	(2,442)	(706,878)	-	(67,568)	(2,874)	(244)	(70,687)
Trade and other payables	-	(41,852)	(13,202)	(3,929)	(58,982)	-	(4,185)	(1,320)	(393)	(5,898)

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Effect on other comprehensive income	-	558,070	292,714	32,845	883,629	-	55,807	29,272	3,285	88,364
Exposure to currency risk	470	337,427	1,078,216	72,118	1,488,230	47	33,743	107,823	7,212	148,824
Risk mitigation effect	-	(190,000)	-	-	(190,000)	-	(19,000)	-	-	(19,000)
Exposure to currency risk after hedging	470	147,427	1,078,216	72,118	1,298,230	47	14,743	107,823	7,212	129,824

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-Sep 30 2020 unaudited	Jan 1-Sep 30 2019 unaudited	Sep 30 2020 unaudited	Dec 31 2019
1 EUR	4.4420	4.3086	4.5268	4.2585
1 USD	3.9337	3.8426	3.8658	3.7977
1 RON	0.9191	0.9081	0.9291	0.8901
1 CZK	0.1677	0.1675	0.1666	0.1676

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

Exposure to interest rate risk

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

PLN '000

	Carrying amount	
	Sep 30 2020 unaudited	Dec 31 2019
Fixed-rate financial instruments		
Financial assets	4,051,480	4,467,278
Financial liabilities	311,178	(315,003)
	4,362,658	4,152,275
Risk mitigation effect	(530,000)	(530,000)
	3,832,658	3,622,275
Variable-rate financial instruments		
Financial assets	-	-
Financial liabilities	(1,965,297)	(2,492,027)
	(1,965,297)	(2,492,027)
Risk mitigation effect	530,000	530,000
	(1,435,297)	(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.

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
September 30th 2020				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(19,653)	19,653	-	-
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.

PLN '000

	Sep 30 2020 unaudited		Dec 31 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value				
Derivatives	(6,932)	(6,932)	3,799	3,799
Hedging instruments	(21,044)	(21,044)	(3,504)	(3,504)
	(27,976)	(27,976)	295	295
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	3,777,079	3,560,585	4,196,821	3,820,966
Loans	206,878	201,381	214,617	219,549
Secured bank borrowings	(693,870)	(693,870)	(1,280,242)	(1,280,242)
Unsecured bonds in issue	(1,382,979)	(1,389,647)	(1,361,176)	(1,372,989)
	1,907,107	1,678,449	1,770,020	1,387,285

Interest rates used for fair value estimation:

	Sep 30 2020 unaudited	Dec 31 2019
Investments in debt portfolios	-0.03% - 216.23%	-0.03% - 216.23%
Loans	2.97% - 3.82%	2.97% - 3.82%
Borrowings	1.2% - 3.2%	1.76% - 3.71%
Unsecured bonds in issue	3.12% - 4.8%	4.71% - 5.71%

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 2019 and 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	3,799	3,799
Hedging instruments	(3,504)	(3,504)
As at Sep 30 2020		
Derivatives	(6,932)	(6,932)
Hedging instruments	(21,044)	(21,044)

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	214,617	219,549
As at Sep 30 2020		
Investments in debt portfolios	3,777,079	3,560,585
Loans	206,878	201,381

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.

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

Investment in new debt portfolios

Investment in debt portfolios purchased by the Group in the period from January 1st to September 30th 2020 totalled PLN 113m. The 71% year-on-year decline in investment was brought about by the global coronavirus pandemic, which made the Group scale down its investing activity. In the nine months ended September 30th 2020, KRUK invested primarily in retail debt portfolios in Poland and Romania. The total nominal value of the purchased portfolios was PLN 825m, down 79% year on year.

Recoveries and revaluation of portfolios

In the nine months ended September 30th 2020, recoveries from portfolios purchased by the KRUK Group totalled PLN 1,346m, up 3% year on year. The KRUK Group reviewed the accounting estimate of recoveries to reflect the expected impact of Covid-19, and as a result recognised a PLN -214m total write-off on the portfolios for the nine months ended September 30th 2020 (of which PLN -125m was booked for the three months ended March 31st 2020, PLN -74m for the three months ended June 30th 2020, and PLN -14m for the three months ended September 30th 2020).

Results for the nine months ended September 30th 2020

The KRUK Group's performance figures for the nine months ended September 30th 2020 reflect its best knowledge at the time of their preparation, with the reservation that the spreading Covid-19 pandemic and its consequences carry a number of risks and uncertainties which the KRUK Group may not have been able to predict at the time of preparing its results for the nine months ended September 30th 2020. The negative revaluation of debt portfolios, partial impairment loss recognised on the acquired Spanish company (Espand, currently renamed to KRUK España) and recognition of deferred tax translated directly into the net result for the nine months ended September 30th 2020, of PLN 35m, down PLN 210m year on year. At the same time, cash EBITDA for the nine months ended September 30th 2020 came in at PLN 915m, having improved 8% year on year.

The positive performance for the nine months ended September 30th 2020 was a combined result of a loss of PLN -62m posted for the three months ended March 31st 2020, which was more than offset by profits generated in the subsequent quarters, of PLN +43m for the three months ended June 30th 2020 and PLN +54m for the three months ended September 30th 2020. The quarterly performance was affected by the portfolio write-offs, recognised largely in the first quarter of 2020 (PLN -125m for the three months ended March 31st 2020, PLN -74m for the three months ended June 30th 2020 and PLN -14m for the three months ended September 30th 2020). In the three months ended June 30th 2020, a partial impairment loss was recognised on the acquired Spanish company (Espand, currently renamed to KRUK España), which reduced net profit/(loss) by PLN 25m. Net profit/(loss) for the three months ended September 30th 2020 was negatively affected by the recognition of PLN 60m in deferred tax liability, based on planned future taxable

transfers from the Group's investment companies to KRUK S.A. – higher transfers have a negative short-term effect on net profit/(loss), but are more economically viable to the Group in the long term.

At the same time, the savings plan implemented by the Group in response to the pandemic since April 2020 buoyed up its performance in the second and third quarters. Total operating and administrative expenses in the three months to June 30th 2020 and three months to September 30th 2020 fell relative to the first quarter by PLN 26m (excluding the impairment loss on the credit management company active on the Spanish market) and PLN 22m, respectively. The difference was achieved partly on the back of savings and partly on costs being moved forward to future periods. One of the many savings was a 25% reduction in the salaries of Management and Supervisory Board members, and a 20% reduction in the salaries of senior managers for May–July 2020.

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

In the period from January 1st to September 30th 2020, Series W1 bonds were redeemed on June 8th 2020 in accordance with their terms and conditions at the nominal value of PLN 13,360 thousand.

In the reporting period, the Group issued new bonds. 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, under which the Parent may issue public bonds. Under the Programme, on September 25th 2020 unsecured Series AK1 bonds were issued with a nominal value of PLN 25,000 thousand, bearing interest at a fixed rate of 4.80%, maturing on September 25th 2025.

15. Dividends paid (or declared)

On July 27th 2020, the Management Board of KRUK S.A. passed a resolution on its proposal for the Supervisory Board regarding allocation of the Parent's net profit for 2019 and on its recommendation for the Parent's General Meeting to allocate a portion of the Parent's net profit earned in 2019 either to buyback of shares or to dividend distribution, and to statutory reserve funds.

On August 31st 2020, the Annual General Meeting of KRUK S.A. resolved not to distribute the Company's profit as dividend. Pursuant to a proposal of the Parent's Management Board concerning allocation of the Parent's net profit for 2019 and assessment of that proposal by the Parent's Supervisory Board, the Parent's net profit for 2019 was allocated to capital reserves created to finance the buyback of KRUK S.A. shares and to statutory reserve funds.

Pursuant to the resolution of the Management Board of KRUK S.A. of April 1, 2020, the Parent was able to purchase its own bonds, issued in PLN, for 6 months for redemption. Until September 30, 2020, the Parent Entity did not purchase any series of bonds. At the end of September 2020, the deadline for the said purchase of bonds expired.

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

After the end of the third quarter of 2020, there were no events with a potentially material bearing on the Group's future performance.

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

Security created over the Group's assets as at September 30th 2020 is presented below:

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 192,958.93 PLN	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.
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Until the date of issue of this report, there were no movements in contingent liabilities or contingent assets.

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:

- After the reporting date, on October 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 September 30th 2020, the value of all debt portfolios pledged in favour of DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A. totalled PLN 1,332,326 thousand.

Piotr Krupa

CEO and President of the Management Board

Piotr Kowalewski

Member of the Management Board

Urszula Okarma

Member of the Management Board

Michał Zasępa

Member of the Management Board

Monika Grudzień-Wiśniewska

Person responsible for keeping accounting records

Hanna Stempień

Person responsible for preparation of the financial statements

Wrocław, November 5th 2020