KRUK S.A.

Separate financial statements

for the year ended December 31st 2021

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

KRUK S.A.

December 31st 2021

Separate financial statements

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Separate statement of profit or loss

For the year ended December 31st

PLN thousand

Continuing operations	***Note***	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Interest income on debt portfolios measured at amortised cost	*5*	17,273	17,887
Other income/(expenses) from purchased debt portfolios	*5*	(467)	1,471
Revenue from other services	*5*	147,059	112,126
Other income	*5*	2,127	16,613
Gain/(loss) on expected credit losses	*5*	16,630	10,820
Operating income including gain/(loss) on expected credit losses and other income/expenses from purchased debt portfolios		182,621	158,917
Employee benefits expense	*8*	(166,225)	(137,812)
Amortisation	*12, 13*	(16,907)	(17,995)
Services	*6*	(40,875)	(33,946)
Other expenses	*7*	(27,470)	(22,818)
		(251,477)	(212,571)
Operating profit/(loss)		(68,856)	(53,655)
Finance income	*9*	19,746	20,534
Finance costs	*9*	(57,739)	(99,753)
including interest expense relating to lease liabilities		*(814)*	*(865)*
Net finance costs		(37,992)	(79,219)
Share of profit/(loss) of equity-accounted investees	*14*	864,412	325,386
Profit/(loss) before tax		757,564	192,513
Income tax	*10*	(62,806)	(111,158)
Net profit/(loss) for period		694,758	81,356
Earnings/(loss) per share			
Basic (PLN)	*21*	36.63	4.29
Diluted (PLN)	*21*	35.80	4.22

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

Separate statement of comprehensive income

For the year ended December 31st

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Net profit/(loss) for period	**694,758**	**81,356**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Translation reserve	(5,652)	111,579
Cash flow hedges	32,668	(14,861)
Other comprehensive income for the period, net	27,016	96,718
Total comprehensive income for period	**721,774**	**178,074**

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

Separate statement of financial position

As at Dec 31

PLN thousand	*Note*	Dec 31 2021	Dec 31 2020
Assets			
Cash and cash equivalents	19	53,698	6,595
Hedging instruments	23	13,803	-
Trade receivables from related entities	18	27,331	20,594
Trade receivables from other entities	18	2,870	2,640
Other receivables	18	7,255	7,869
Inventories	17	18,970	28,755
Investments	15	419,983	320,520
Equity-accounted investments in subsidiaries	14	3,814,418	3,315,459
Property, plant and equipment	12	39,882	37,521
Intangible assets	13	9,502	12,841
Other assets		6,367	5,956
Total assets		4,414,079	3,758,750
Equity and liabilities			
Liabilities			
Trade and other payables	27	29,170	51,863
Derivatives	24	-	11,236
Hedging instruments	23	-	18,386
Employee benefit obligations	25	24,153	21,464
Income tax payable		14,995	4,358
Borrowings, other debt securities and leases	22	1,565,210	1,462,143
Provisions	26	12,657	11,280
Deferred tax liability	16	167,077	134,249
Total liabilities		1,813,262	1,714,979
Equity			
Share capital	20	19,013	19,011
Share premium		333,264	310,430
Cash flow hedging reserve	23	17,885	(14,783)
Translation reserve		75,708	81,360
Other capital reserves		122,202	103,626
Retained earnings		2,032,745	1,544,127
Total equity		2,600,817	2,043,771
Equity and liabilities		4,414,079	3,758,750

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

Separate statement of changes in equity

For the year ended December 31st 2021

PLN thousand		Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2021		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771
Comprehensive income for the period								
Net profit/(loss) for period		-	-	-	-	-	694,758	694,758
Translation reserve		-		-	(5,652)	-	-	(5,652)
Measurement of hedging instruments	*23*	-	-	32,668	-	-	-	32,668
Total comprehensive income for period		-	-	32,668	(5,652)	-	694,758	721,774
Contributions from and distributions to owners								
- Payment of dividends	*21*	-	-	-	-	-	(206,140)	(206,140)
- Share-based payments	*30*	-	-	-	-	18,576	-	18,576
- Issue of shares	*20*	273	22,834	-	-	-	-	23,107
- Cancellation of treasury shares	*20*	(271)	-	-	-	-	-	(271)
Total contributions from and distributions to owners		2	22,834	-	-	18,576	(206,140)	(164,728)
Total equity as at Dec 31 2021		19,013	333,264	17,885	75,708	122,202	2,032,745	2,600,817

For the year ended December 31st 2020

PLN thousand		Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2020		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426
Comprehensive income for the period								
Net profit/(loss) for period		-	-	-	-	-	81,356	81,356
Translation reserve		-	-	-	111,579	-	-	111,579
Measurement of hedging instruments	*23*	-	-	(14,861)	-	-	-	(14,861)
Total comprehensive income for period		-	-	(14,861)	111,579	-	81,356	178,074
Contributions from and distributions to owners								
- Share-based payments	*30*	-	-	-	-	(1,156)	-	(1,156)
- Issue of shares	*20*	39	3,238	-	-	-	-	3,277
- Allocation of profit to capital reserve for buyback of shares		-	-	-	-	95,050	(95,050)	-
- Share buyback	*20*	-	-	-	-	(94,850)	-	(94,850)
Total contributions from and distributions to owners		39	3,238	-	-	(956)	(95,050)	(92,729)
Total equity as at Dec 31 2020		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771

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

Separate statement of cash flows

For the year ended December 31st *PLN thousand*	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Cash flows from operating activities			
Net profit/(loss) for period		694,758	81,356
Adjustments			
Depreciation of property, plant and equipment		12,205	12,609
Amortisation of intangible assets		4,702	5,386
Net finance income/costs	9	36,090	78,661
Share of profit/(loss) of equity-accounted investees	14	(864,412)	(325,386)
Settlement of lease payments under terminated contracts		-	(1,300)
(Gain)/loss on sale of property, plant and equipment		(46)	(813)
Equity-settled share-based payments		18,576	(1,156)
Income tax	10	62,806	111,158
Change in debt portfolios purchased	15	1,542	3,620
Change in inventories	17	9,785	1,539
Change in trade and other receivables	18	7,382	54,372
Change in other assets		(411)	(1,273)
Change in trade and other payables, excluding financial liabilities	27	10,121	(15,193)
Change in employee benefit obligations	25	2,689	769
Change in provisions	26	1,377	3,826
Income tax paid		(19,321)	(13,478)
Net cash from operating activities		(22,158)	(5,304)
Cash flows from investing activities			
Interest received	9	5	36
Loans	15	(145,596)	(42,700)
Sale of intangible assets and property, plant and equipment		1,989	3,133
Dividends received	14	38,917	18,651
Disposal of financial assets		471,068	482,863
Purchase of intangible assets and property, plant and equipment		(7,083)	(7,037)
Acquisition of shares in subsidiaries	14	(196,175)	(27,028)
Repayments	15	46,270	85,779
Net cash from investing activities		209,395	513,698
Cash flows from financing activities			
Proceeds from issue of debt securities	22	535,000	24,550
Net proceeds from issue of shares		22,836	3,277
Increase in borrowings	22	994,534	578,994
Share buyback	20	-	(94,850)
Repayment of borrowings	22	(865,171)	(865,074)
Payments under finance lease contracts (principal)	22	(7,888)	(8,371)
Dividends paid		(206,140)	-
Redemption of debt securities	22	(540,000)	(88,360)
Interest paid		(73,304)	(65,775)
Net cash from financing activities		(140,134)	(515,610)
Total net cash flows		47,103	(7,216)
Cash and cash equivalents at beginning of period		6,595	13,812
Cash and cash equivalents at end of period		53,698	6,595
- including restricted cash[1]		38,931	-
- including effect of exchange rate fluctuations on cash held		(1,139)	(11,541)

[1] *Proceeds from the issue of Series AM1 bonds deposited in a brokerage account, credited in the Company's bank account after the reporting date, on January 4th 2022.* The separate statement of cash flows should be read in conjunction with the notes to these separate financial statements, which form their integral part.

Significant accounting policies and other notes

Separate financial statements for the year ended December 31st 2021 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

1. Company details

Name
KRUK Spółka Akcyjna ("KRUK S.A." or "the Company")

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, 53-230 Wrocław, Poland
Date of registration: September 7th 2005
Registration number: KRS NO. 0000240829

Business profile
The Company's principal business consists in debt collection, including collection of receivables from purchased debt portfolios, fee-based credit management services, and investing in subsidiaries.

The Company is the parent of the KRUK Group ("the Group") and in addition to these separate financial statements it prepares consolidated financial statements containing the data of the Company and its subsidiaries, approved on the same day as these separate financial statements.

As at December 31st 2021 and as at the date of authorisation of these financial statements for issue, the composition of the Company's Management Board was as follows:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Adam Łodygowski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Michał Zasępa,	Member of the Management Board.

As at December 31st 2021 and as at the date of authorisation of these financial statements for issue, the composition of the Company's Supervisory Board was as follows:

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

Separate financial statements for the year ended December 31st 2021 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

As at December 31st 2020 and as at the date of authorisation of these financial statements for issue, the composition of the Company's Management Board was as follows:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Adam Łodygowski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Michał Zasępa,	Member of the Management Board.

As at December 31st 2020 and as at the date of authorisation of these financial statements for issue, the composition of the Company's Supervisory Board was as follows:

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

2. Basis of preparation

2.1. Statement of compliance

These separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on March 15th 2022.

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

These separate financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances were identified which would indicate any threat to the Company's continuing as a going concern. The going concern assumption was reviewed in the light of COVID-19.

2.2. Basis of accounting

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

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

- equity-accounted investments in subsidiaries
- at amortised cost calculated using the effective interest rate method

  - including impairment losses – for credit-impaired assets (investments in debt portfolios),
  - financial assets held as part of the business model whose objective is to hold financial assets in order to collect contractual cash flows (loans advanced), and
  - for other financial liabilities,
- at fair value – for derivatives,
- at historical cost for other non-financial assets and liabilities.

2.3. Functional currency and presentation currency

In these separate financial statements all amounts are presented in the Polish złoty (PLN), rounded to the nearest thousand. Therefore, mathematical inconsistencies may occur in summations or between notes.

The Polish złoty is the functional currency of the Company.

2.4. Accounting estimates and judgements

In order to prepare separate 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 Company on an ongoing basis, based on past experience and other factors, including expectations as to future events, which seem justified in given circumstances. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised.

Information on estimates and judgements concerning the application of accounting policies which most significantly affect the amounts presented in the financial statements:

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2021 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
Equity-accounted investments in subsidiaries	3,814,418	3,315,459	3.8, 14	Equity-accounted investments in subsidiaries are subject to impairment testing. Investments in subsidiaries for which impairment indications were identified were tested for impairment. As part of the tests, the Company estimated the recoverable amount of the investments based on the value in use of the respective cash-generating units, using the discounted cash flow method. The valuation of investments in subsidiaries is based on a number of assumptions and estimates, in particular with respect to the amount of future cash flows and the adopted discount rate. The projected cash flows of subsidiaries investing in debt portfolios or debt-related assets depend primarily on the assumed expenditure on new portfolios and amount of recoveries. The correctness of the underlying assumptions involves a considerable risk given the significant uncertainty as to the effectiveness of debt collection activities in the future. The discount rate used to test investments in subsidiaries for impairment reflects the current market assessment of the asset risk for the debt collection industry.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2021 ***(PLN '000)***	**Dec 31 2020** ***(PLN '000)***		
Investments in debt portfolios	31,787	33,329	3.3.1, 15, 28.1, 28.3	The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods (portfolio analysis) or based on a legal and economic analysis of individual claims or indebted persons (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. KRUK S.A. prepares projections of collections from debt portfolios separately for individual markets. The projections account for historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, current collection strategy and macroeconomic considerations, among other factors. The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts that take into account the initial value (purchase price plus transaction costs), and in principle remains unchanged throughout the life of a portfolio.

Item	Amount subject to judgement		Note	Assumptions and estimate calculation
	Dec 31 2021 *(PLN '000)*	Dec 31 2020 *(PLN '000)*		
Deferred tax liability	(167,077)	(134,249)	3.23, 16	As the Company is able to control the timing of temporary differences with respect to investments in subsidiaries, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). The Company assesses the recoverability of deferred tax asset based on its approved financial forecast for the following years.
Equity-accounted investments in subsidiaries	61,474	81,953	3.8, 14	The Company 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 financial statements as a proportional share in the company's assets and liabilities rather than a fully consolidated transaction.

3. Significant accounting policies

These financial statements comply with the requirements of all International Accounting Standards, International Financial Reporting Standards and related interpretations endorsed by the European Union, which have been issued and are effective for annual periods beginning on or after January 1st 2021.

3.1. Changes in accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in the separate financial statements. There are no significant changes in accounting policies in 2021.

3.2. Foreign currencies

3.2.1. Foreign currency transactions

Transactions denominated in foreign currencies are recognised as at the transaction date in the functional currency, at buy or sell rates quoted as at the transaction date by the bank whose services the Company uses.

Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the National Bank of Poland for that date. Exchange differences on measurement of financial assets and liabilities as at the end of the reporting period are the differences between the value at amortised cost/fair value in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost/fair value in the foreign currency, translated at the relevant mid exchange rate quoted by the National Bank of Poland for the end of the reporting period.

Non-monetary items of foreign currency assets and liabilities valued at historical cost are translated at the relevant mid exchange rate quoted by the National Bank of Poland for the transaction date.

Non-monetary items of foreign currency assets and liabilities valued at fair value are translated at the relevant mid exchange rate quoted by the National Bank of Poland for the date of fair value measurement.

Currency-translation differences are recognised in profit or loss for the given period.

3.2.2. Translation of foreign operations

Assets and liabilities of foreign entities are translated at the mid exchange rate quoted by the National Bank of Poland at the end of the reporting period.
Retained earnings from foreign operations are translated at the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period.
Any currency-translation differences (translation reserve) are recognised as other comprehensive income. Where a foreign operation is sold, in whole or in part, relevant amounts recognised in equity are charged to profit or loss for the period.
Any exchange differences on monetary items in the form of receivables from a foreign entity which are not planned or probable to be settled in foreseeable future are a part of net investment in the entity operating abroad, and are recognised in other comprehensive income and presented under equity as exchange differences on translation.

3.3. Financial instruments

3.3.1. Financial assets

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

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

As at December 31st 2021 and December 31st 2020, the Company did not have any financial assets at fair value through other comprehensive income.

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

The Company identifies the following business models:

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

Contractual cash flow characteristics are assessed based a qualitative test carried out to determine if the cash flows generated from the assets are solely payments of principal and interest (SPPI).

A contractual cash flow characteristic does not affect the classification of the financial asset if:

- it could have only a de minimis effect on the contractual cash flows of the financial asset,
- the cash flow characteristic is not genuine – it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

To make this determination, the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument must be considered.

The SPPI test is performed for each financial asset or group of financial assets held in the 'hold to collect' (business model whose objective is to hold financial assets to collect contractual cash flows) and 'hold to collect and sell' (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets) business model as at initial recognition of the asset (including for a substantial modification after restatement of the financial asset) and as at the date of significant change of the contractual cash flow characteristics.

On initial recognition, the Company measures financial assets at fair value plus transaction costs directly attributable to their acquisition, excluding trade receivables.

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

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

1. The following assets are measured at amortised cost:

   a) Investments in debt portfolios,
   b) trade and other receivables,
   c) Loans to related parties.

Investments in debt portfolios and loans are measured at amortised cost in accordance with IFRS 9 if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI test passed).

2. At fair value through profit or loss

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

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

The following is considered a change in the business model:

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

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

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

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

a) if the Company transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained upon the transfer;

b) if the Company retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the asset;

c) if the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In such a case:

(i) if the Company has not retained the control, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained upon the transfer;

(ii) if the Company has retained the control, it continues to recognise the asset to the extent to which it maintains its continuing involvement in that asset.

Financial assets measured at amortised cost

Investments in debt portfolios

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

The Company's business model for investments in debt portfolios consists in holding and managing the portfolios on a long-term basis in order to generate expected cash flows from the portfolios.

All purchased debt portfolios are classified by the Company as measured at amortised cost to better reflect the portfolio management strategy focused on holding an asset with a view to maximising contractual recoveries.

Investments in debt portfolios are measured at amortised cost, using the credit risk-adjusted effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred increased by any material transaction costs which can be directly allocated.

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

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

The estimated cash flows are primarily based on:

- expected recovery rates from the collection tools used,
- the extent to which the collection tools are used with respect to individual portfolios (existing and planned),
- repayment history,
- macroeconomic conditions.

The value of an asset at a reporting date is its initial value increased by interest income and decreased by actual recoveries, and adjusted to reflect any revisions of estimates concerning future cash flows. Consequently, the value of an asset at the reporting date is equal to the discounted value of expected cash recoveries.

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

For the purpose of analyses and recovery projections, retail debt portfolios are grouped. Recovery projections are prepared for separate projection groups rather than for individual portfolios. There are two levels of grouping, based on the following criteria:

1st level of grouping – the country where a debt portfolio was purchased

2nd level of grouping – the date of debt portfolio purchase for the Company.

The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Company. Portfolio groups are made of portfolios that are at similar recovery phases. The Company has introduced the following breakdown mechanism for this level of grouping:

- the projection prepared for each projection group is ultimately broken down within the groups into individual debt portfolios using keys based on historical data,
- neither mortgage-backed nor secured corporate debt portfolios are grouped. Recovery projections are prepared for each portfolio separately.

<u>Loans</u>

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

With reference to the requirements of IFRS 9, the Company has introduced three main baskets for the recognition of expected credit losses:

- Basket 1 – includes loans with respect to which there was no significant increase in credit risk and no impairment was identified in the period from their recognition to the reporting date (no past-due events). The expected credit losses on such loans are recognised for a time horizon of the next 12 months.

- Basket 2 – includes loans with respect to which there was a significant increase in credit risk (past-due event) between the date of recognition and the reporting date, but no impairment was identified. Expected lifetime credit losses are recognised for such loans.
- Basket 3 – includes loans for which impairment was identified (receivables past due by over 90 days). Expected lifetime credit losses are recognised for such loans.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. A financial asset is classified as held for trading if:
- it is acquired principally for the purpose of selling it in the near future,
- it is part of a portfolio of identified financial instruments that are managed together and for which there is the probability of short-term profit-taking,
- it is a derivative (except for a derivative that is a financial guarantee contract or a hedging instrument),

b) it is designated as such upon initial recognition.

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

3.3.2. Trade and other receivables

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

When measuring trade receivables, the Company applies the simplified approach permitted under IFRS 9, i.e. the Company uses practical expedients when measuring expected credit losses if the expedients are consistent with the principles lid down in par. 5.5.17. of IFRS 9. The Company uses the provisions matrix to calculate expected credit losses for receivables.

Impairment of trade and other receivables

The Company recognises an impairment allowance for expected credit losses on trade and other receivables that do not contain a significant financing component at an amount equal to lifetime expected credit losses.

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

- significant financial difficulty of the client,
- a breach of contract, such as default or past due event,

- probability that the borrower will enter bankruptcy or other financial reorganisation.

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

With reference to the requirements of IFRS 9, the Company has introduced three main baskets for the recognition of expected credit losses:

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

3.3.3. Modification of contractual cash flows from financial assets

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

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

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

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

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

3.3.4. Financial liabilities other than derivative instruments, trade and other payables

Financial liabilities other than derivative instruments

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

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

Financial liabilities are recognised as at the date of the transaction in which the Company becomes a party to an agreement obliging it deliver a financial instrument.

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

Financial liabilities are not reclassified.

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

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

The Company derecognises a financial liability when the liability has been repaid, written off or is time barred.

Trade and other payables

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

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

Offsetting of financial assets and liabilities

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

Fair value for the purpose of disclosure in the financial statements

Fair value estimated for the purpose of disclosure is calculated based on the present value of future cash flows from repayment of principal and payment of interest, discounted using the market interest rate effective as at the end of the reporting period. For finance leases, the market interest rate is determined by reference to similar lease contracts. Trade and other payables with short maturities and liabilities for which interest rates are adjusted for changes in base rates on an on-going basis are not discounted because their carrying amount is approximately equal to their fair value.

3.3.5. Derivative instruments and hedge accounting

Hedge accounting

To apply hedge accounting, in accordance with IFRS 9, the Company is required to meet all the requirements specified below:

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

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

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

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

Discontinuation of hedge accounting

The Company discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument no longer meets the risk management objective, expires, is sold or terminated, or where an economic relationship between the hedged item and the hedging instrument no longer exists, or the credit risk starts to dominate the value changes that result from that economic relationship.

For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

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

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability of cash flows that is attributable to a particular risk associated with a recognised asset or liability or with a highly probable future transaction, and could affect profit or loss.

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

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

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

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

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

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

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

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

Hedging of a net investment in a foreign operation

Hedge accounting for a net investment in a foreign operation consists in hedging the currency exposure of the interest in net assets of a consolidated foreign operation.

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

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

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

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

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

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

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

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

Given its characteristics, the hedging relationship meets, by definition, the requirement that an economic relationship exists between the hedging instrument and the hedged item (EUR sale contract vs EUR-denominated net assets).

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

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

- absence of the counterparties' defaults under hedging transactions;
- application of credit risk management policies to counterparties under hedging transactions (monitoring, limits);

- absence of credit risk on the hedged item.

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

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

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

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

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

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

3.4.Property, plant and equipment

3.4.1. Recognition and measurement

Items of property, plant and equipment are recognised at cost, less depreciation charges and impairment losses.

The cost comprises the price for which a given asset was purchased and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage, as well as direct remuneration (in the event of an item of property, plant and equipment produced internally). Rebates, discounts and other similar concessions and returns reduce the asset acquisition cost. Production cost of property, plant and equipment and property, plant and equipment under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date). Production cost also comprises preliminary estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such estimation is required. Purchased software, necessary for the proper operation of related equipment, is capitalised as a part of this equipment.

Borrowing costs related to the acquisition or production of certain assets increase their acquisition or production cost.

If a specific item of property, plant and equipment consists of separate and material components with different economic useful lives, such components are treated as separate assets.

Gain or loss on disposal of an item of property, plant and equipment is estimated as the difference between the disposal proceeds and the carrying amount of the disposed item, and is recognised in the period's profit or loss under other income or other expenses.

3.4.2. Subsequent expenditure

Subsequent expenditure on items of property, plant and equipment is capitalised if such expenditure may be reliably estimated and the Company is likely to derive economic benefits from such assets. Present value of the removed items of property, plant and equipment is derecognised. Expenditure related to the maintenance of items of property, plant and equipment is recognised as current period's profit or loss at the time it is incurred.

3.4.3. Depreciation

The level of depreciation charges is determined based on acquisition or production cost of an asset, less its residual value.

Depreciation cost is recognised in the current period's profit or loss using the straight-line method with respect of the estimated useful economic lives of items of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.
Assets are depreciated in the month following their acceptance for use. Land is not depreciated.

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

Buildings and structures	10–40	years
Plant and equipment	3–10	years
Vehicles	4–5	years
Other property, plant and equipment	3–8	years

The reliability of applied useful economic lives, depreciation methods and residual values of property, plant and equipment is reviewed at the end of each reporting period and adjusted in justified cases.

3.4.4. Right of use and lease liabilities

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

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

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

Lease liabilities are measured at amortised cost.

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

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

and

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

After the commencement date, the lessee measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any lease reassessment or modification, or to reflect revised in-substance fixed lease payments.

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

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

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

and

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

Right-of-use assets are amortised on a straight-line basis over the shorter of the useful life of the asset or the lease term, unless the Company is certain that it obtains ownership before the end of the lease,

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

Property foreclosed through debt recovery is now recognised by the Company under 'Inventories'.
The Company forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held to generate income (proceeds) from sale. The value of the property is recognised in the statement of financial position after the Company has obtained the rights to dispose of the property, i.e. once a final court decision has been issued, and the amount is deducted from the amount of the indebted person's debt. Foreclosed property is initially measured at the projected value of the planned recovery from receivables as of the acquisition date. Subsequent to initial recognition, it is measured at the lower of the value of the planned recovery from receivables of the acquisition date and net realisable value.
Property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the sale proceeds is recognised in the statement of profit or loss for the period under income.

3.6. Intangible assets

3.6.1. Intangible assets

Other acquired or internally produced intangible assets with finite useful economic lives are recognised at cost. Following initial recognition, intangible assets are reduced by the amount of impairment losses.

The Company recognises development expenses as intangible assets. Costs of development work for the Company's own needs, incurred prior to the application of a new technology, are recognised as assets if the following conditions are met:

- the production programme or technology are precisely defined, and development expenses to be incurred in connection with them are reliably estimated;
- the technical feasibility of the programme or technology has been demonstrated and appropriately documented, and based on this the Company resolved to manufacture the products or use the technology;
- development expenses are expected to be covered with income from the application of such programmes or technologies.

3.6.2. Subsequent expenditure

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

3.6.3. Amortisation

The amount of amortisation charges is determined based on acquisition or production cost of an asset, less its residual value.

Amortisation cost is recognised in the current period's profit or loss on the straight-line basis with respect of the estimated useful life of a given intangible asset other than goodwill from the moment it is placed in service. This method reflects the manner of achieving future economic benefits related to the use of a given asset in the best possible way.

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

Software	5 years
Development expense	1–5 years

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

3.6.4. Assets amortised over time and intangible assets under development

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

3.7. Investments

Investments include:

- loans advanced to related parties described in Notes 3.3.1 and 3.11.1.
- debt portfolios measured at amortised cost for policies applied in the valuation of such portfolios, see Sections 3.3.1 and 3.11.1,

3.8. Investments in subsidiaries

All investments in subsidiaries are considered equity instruments and therefore, unless they are classified as held for sale, are measured using the equity method.
The acquisition cost of shares or certificates is their fair value as at the acquisition date. At the end of each accounting period, but not less frequently than at the end of every quarter, the carrying amount of an investment is remeasured by the share of the subsidiary's profits/(losses) attributable to the shareholder's (Company's) interest, resulting from the number of shares entitling it to share in such profits/losses.
The carrying amount of the investment is increased by the value of cash or non-cash contributions made, and reduced by the amount of dividends paid or the value of cancelled shares/certificates.
A gain/(loss) on disposal transactions (sale price less the value recognised through the equity method) is recorded in the statement of profit or loss as a gain or loss on disposal of shares in subsidiaries.

3.9. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks, as well as short-term deposits with original maturities of up to three months. Cash is disclosed in nominal amounts. In the case of cash in bank accounts, its nominal amount as at the reporting date also includes accrued interest.

3.10. Other assets

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

3.11. Impairment losses on assets

3.11.1. Financial assets

The Company measures investments in debt portfolios at amortised cost.

At the end of each reporting period, financial assets other than measured at fair value through profit and loss are tested for impairment based on objective criteria. A financial asset is deemed to be impaired if, after initial recognition, there is objective evidence of the occurrence of an event or events that have an adverse effect on future cash flows from the asset and this effect can be reliably measured.

According to the description of baskets for the recognition of expected credit losses presented in section 3.3.1, in the case of receivables and loans objective indications of impairment include non-payment or arrears in repayment of debt by an indebted person; breach of the contract; and circumstances indicating high probability of the indebted person's bankruptcy.

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

Recognition and reversal of impairment losses on loans are presented on a net basis in the statement of profit or loss in the line item Share of profit/(loss) of equity-accounted investees.

When assessing the impairment of debt portfolios, the Company uses historical trends in the payments made and transactions in portfolios, taking into account the anticipated future performance.

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount and the present value of projected cash flows discounted at the original effective interest rate. Any losses are recognised in profit or loss for the period and reduce the present value of financial assets; the Company continues to charge interest on such impaired assets. If any subsequent circumstances indicate that the indicators of impairment ceased, reversal of allowances for expected credit losses is recognised in profit or loss for the current period.

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

3.11.2. Non-financial assets

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

With regard to investments in subsidiaries, objective impairment indications include losses incurred by a given subsidiary or significant impairment of assets.

The recoverable amount of assets or cash-generating units is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted at a rate which reflects current market assessments of the time value of money and the risks specific to the asset.

To calculate the discount rate, the Company uses the weighted average cost of capital for the debt collection industry. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets.

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

The Company tests shares in subsidiaries for impairment with respect to cash flows generated by each subsidiary.

Recognition and reversal of impairment losses on investments in subsidiaries are recognised in the statement of profit or loss in finance income or costs as share of profit/(loss) of equity-accounted investees

3.12. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Company's Articles of Association and registered with the National Court Register. Shares issued and not yet registered with the National Court Register as at the reporting date are recognised under equity.

Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

Share premium account is created in the amount of the difference between the issue price and the nominal value of issued shares.

Capital reserve is created from retained earnings in accordance with the objective set out in a relevant resolution, and from the effective portion of hedging instruments.

The Company is required to maintain statutory reserve funds to cover future losses. The Company meets the requirement by maintaining statutory reserve funds that exceed one-third of the share capital.

Exchange differences on translating foreign operations are disclosed in accordance with the policy described in Note 3.2.2.

3.13. Trade and other payables, borrowings and other debt securities and leases

For the rules followed in the measurement of trade payables, liabilities under borrowings and other financial liabilities, see Section 3.3.4.

3.14. Employee benefits

3.14.1. Defined contribution plan

Pension contributions paid to the Social Insurance Institution are classified as defined contribution plans. Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to make further payments. Contributions payable to a defined contribution plan are recognised as cost of employee benefits and charged to profit or loss in the period when the employee rendered the related service. A prepayment is recognised as an item under other receivables to the extent that the prepayment will lead to a reduction in future payments or a cash refund. Contributions to a defined contribution plan that fall due within more than twelve months after the period in which the employee rendered the related service are discounted to their present value.

3.14.2. Employee benefit obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the service is provided.

The Company recognises liability under employee benefit obligations for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefits

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

Long-term employee benefits

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

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

The value of rights granted to employees to acquire Company shares at a specific price (options) is recognised as an expense with a corresponding increase in other capital reserves. The value of the plan is initially measured as at the grant date. The value of the options is recognised in the Company's profit or loss over the period during which employees become unconditionally entitled to acquire the shares. The value of the plan is reviewed as at the end of each reporting period and as at the option vesting date, by changing the number of options that are expected by the Company to be unconditionally vested. Any changes in the value of the plan are disclosed as an adjustment to values previously posted in the period under other income or employee benefits expense, as appropriate. The value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based payments plan, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the value of an individual right may only increase.

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

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

For the purpose of the valuation, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is will purchase the shares corresponding to such options between the option vesting date and the plan closing date. The management stock option plans are described in Note 20.

3.15. Provisions

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

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

3.16. Revenue

3.16.1. Revenue from debt collection

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

Revenue from purchased debt portfolios

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

The credit risk-adjusted effective interest rate used for discounting estimated cash flows is calculated based on the initial cash recovery projections that take into account the initial value of the investment in debt portfolios, and remains unchanged throughout the life of a portfolio.

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

Moreover, any changes in the portfolio's value resulting from changes in the estimated timing and amounts of expected future cash recoveries for the portfolio are disclosed as 'Gain/(loss) on expected credit losses'.

Revenue from credit management services

Revenue from credit management services comprises commission fees due for the collection of debts. Such revenue is recognised on an accrual basis, in the period in which the service was provided, based on a defined percentage of collected amounts, as provided for in the relevant contract with a business partner. Such revenue is presented in the statement of profit or loss under 'Revenue from other services'.

3.16.2. Revenue from other services

In addition to revenue from debt collection services described in Section 3.16.1, revenue from other services includes revenue from the provision of marketing, human resources and IT support services.

Revenue from other services is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

Revenue from the provision of other services is recognised when it arises.

3.17. Other income

Other income comprises operating income not directly related to the Company's main business objects. It includes in particular income from sale and liquidation of property, plant and equipment, income/expenses from recharged services, income from reversal of allowances for expected credit losses, damages received, penalties and fines, and grants received.

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

3.18. Services

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

The costs of services are charged to current period expenses.

3.19. Employee benefits expense

Employee benefits expense includes:

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

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

3.20. Other expenses

Other expenses include:

- court fees incurred as part of the in-court debt recovery process,
- promotion and advertising costs,
- entertainment costs
- fees payable to the Polish Financial Supervision Authority and the Central Securities Depository of Poland,
- taxes and charges (property tax, VAT, municipal and administrative charges),
- insurance costs,
- infrastructure maintenance costs.

3.21. Lease payments

Lease payments are accounted for in accordance with IFRS 16; see Note 3.4.4.

3.22. Finance income and costs

Finance income includes interest income on funds invested by the Company (net of income on purchased debt (Note 3.16)). Interest income is presented in profit or loss of the period using the effective interest rate method.

Finance costs include interest expense on external financing, derivatives, hedging instruments, and foreign exchange losses on translation of monetary items. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method.

Foreign exchange gains and losses are posted in net amounts.

3.23. Income tax

Income tax comprises current and deferred tax. Current and deferred tax is charged to profit or loss of the period except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.

Deferred tax is recognised in respect of temporary differences between the amounts of assets and liabilities as disclosed in the statement of financial position and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither profit or loss of the period, nor taxable income,

- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be disposed of in the foreseeable future,
- initial recognition of goodwill.

Deferred tax is measured using tax rates that are expected to apply when temporary differences reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets are recognised in respect of tax loss carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future and it is probable that the temporary differences will not reverse in the foreseeable future (three years). For the reporting date, the Company reviews the expected realizations from retained earnings in subsidiaries. Any adjustments to the amount of deferred tax liabilities are made based on results of the review.

3.24. Earnings per share

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

3.25. Segment reporting

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

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

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

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2021 and have not been applied in preparing these separate financial statements. From among the new Standards, amendments to Standards and Interpretations, the ones discussed below may have an effect on the Company's financial statements. The Company intends to apply them to the periods for which they are effective for the first time.

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

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the "EU IFRS") apply to reporting periods beginning on or after January 1st 2022:

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
IFRS 17 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach). The purpose of the amendments is to:	The amendments have no significant effect on the separate financial statements.	January 1st 2023

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	• reduce costs by simplifying some of the standard requirements; • facilitate clarification of financial results; and • facilitate transition to the new standard by deferring the effective date of the standard until 2023 and introducing additional expedients to facilitate the first implementation of IFRS 17.		
Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual improvements 2018-2020	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments to IAS 16 Property, Plant and Equipment prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the corresponding costs in the statement of profit or loss. The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify what costs the Company considers when assessing whether a contract will result in a loss. Annual improvements introduce minor amendments to IFRS 1 *First-time Adoption of IFRSs*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and *Illustrative Examples* accompanying IFRS 16 *Leases*.	The amendments have no significant effect on the separate financial statements.	January 1st 2022
Amendment to IAS 8, *Definition of Accounting Estimates*	In the amendment to IAS 8 *Definition of Accounting Estimates*, the definition of change in accounting estimates was replaced by the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting principles and accounting estimates are related and how	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2023

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	a change in valuation technique constitutes a change in accounting estimate. The introduction of the definition of accounting estimates and other amendments to IAS 8 were intended to help entities distinguish changes in accounting policies from changes in accounting estimates.		
Amendments to IAS 1 and IFRS Practice statement 2 *Disclosure of Accounting Policies*	The amendments to IAS 1 and IFRS Practice statement 2 are intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. Guidance was provided on how an entity can identify material accounting policy information. The amendments clarify that accounting policy information may be material by its nature even if the amounts are immaterial and if users of financial statements would need it to understand other relevant information in the financial statements.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2023
COVID-19-Related Rent Concessions amendment to IFRS 16 *Leases*	The amendment extended by 12 months (until June 30th 2022) the practical expedient introduced under the 2020 amendment to IFRS 16, permitting lessees not to treat rent concessions as lease modifications if the rent concessions are a direct consequence of COVID-19 and meet certain conditions.	The Company expects the amendment will have no material impact on the Company's financial results or equity.	April 1st 2021

3.26.2. Standards and Interpretations that have been published, but have not yet been endorsed by the European Union

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	The amendments provide a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2023
Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities	The amendments concern the presentation of liabilities in the statement of financial position. In particular, they clarify that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. The amendments will apply prospectively.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2023
Amendments to IAS 12 *Deferred tax on assets and liabilities arising from a single transaction*	The amendments are intended to clarify how companies should account for deferred taxes on leases and extinguished liabilities.	The Company does not expect the amendments to have any significant	January 1st 2023

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

4. Reporting and geographical segments

Reportable segments

Below, the Company presents its principal reportable segments. The division into segments presented below is based on the criteria of materiality of revenue and share of investments in the separate financial statements. The Management Board reviews internal management reports relating to each business segment at least quarterly. The Company'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, guarantees, other administrative and IT support services.

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

The Company's operating activities concentrate in several geographical segments: Poland, Romania, the Czech Republic and Slovakia.

The activities are divided into four segments based on the scale and location:

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

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

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Reportable segments

For the reporting period January 1st 2021 – December 31st 2021.

	Poland	Romania	Italy	Spain	Other foreign markets	Head Office	Unallocated income / expenses	TOTAL
Revenue	**143,892**	**30,725**	**1,104**	**1,997**	**2,776**	-	**2,127**	**182,621**
Purchased debt portfolios	3,755	27,637	-	-	2,044	-	-	**33,436**
Credit management services	109,456	-	-	-	-	-	-	**109,456**
Other products	30,681	3,088	1,104	1,997	732	-	-	**37,603**
Other income	-	-	-	-	-	-	2,127	**2,127**
Direct and indirect costs	-	-	-	-	-	-	-	**(117,915)**
Purchased debt portfolios	-	-	-	-	-	-	-	**(13,054)**
Credit management services	-	-	-	-	-	-	-	**(96,739)**
Other products	-	-	-	-	-	-	-	**(3,920)**
Unallocated expenses	-	-	-	-	-	-	-	**(4,202)**
Gross profit[1]	-	-	-	-	-	-	-	**64,706**
Purchased debt portfolios	-	-	-	-	-	-	-	**20,382**
Credit management services	-	-	-	-	-	-	-	**12,717**
Other products	-	-	-	-	-	-	-	**33,682**
Unallocated expenses	-	-	-	-	-	-	-	**(2,075)**
Administrative expenses	-	-	-	-	-	-	-	**(116,655)**
EBITDA[2]	**3,842**	**18,335**	**(1,317)**	**(865)**	**523**	**(70,392)**	**(2,075)**	**(51,949)**
Amortisation	-	-	-	-	-	-	-	**(16,907)**
Finance income/costs	-	-	-	-	-	-	-	**(37,992)**
	-	-	-	-	-	-	-	**864,412**
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	-	
Profit before tax	-	-	-	-	-	-	-	**757,564**
Income tax	-	-	-	-	-	-	-	**(62,806)**
Net profit	-	-	-	-	-	-	-	**694,758**
Carrying amount of debt portfolios	6,452	23,417	-	-	1,918	-	-	**31,787**
Cash recoveries	7,207	29,125	-	-	1,906	-	-	**38,239**

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For the reporting period January 1st 2020 – December 31st 2020.

	Poland	Romania	Italy	Spain	Other foreign markets	Head Office	Unallocated income / expenses	TOTAL
Revenue	**111,759**	**25,699**	**949**	**1,275**	**2,622**	**-**	**16,613**	**158,917**
Purchased debt portfolios	4,473	23,973	-	-	1,733	-	-	**30,179**
Credit management services	88,057	-	-	-	-	-	-	**88,057**
Other products	19,229	1,726	949	1,275	889	-	-	**24,068**
Other income	-	-	-	-	-	-	16,613	**16,613**
Direct and indirect costs	-	-	-	-	-	-	-	**(110,878)**
Purchased debt portfolios	-	-	-	-	-	-	-	**(11,108)**
Credit management services	-	-	-	-	-	-	-	**(86,545)**
Other products	-	-	-	-	-	-	-	**(2,562)**
Unallocated expenses	-	-	-	-	-	-	-	**(10,664)**
Gross profit[1]	-	-	-	-	-	-	-	**48,039**
Purchased debt portfolios	-	-	-	-	-	-	-	**19,071**
Credit management services	-	-	-	-	-	-	-	**1,512**
Other products	-	-	-	-	-	-	-	**21,505**
Unallocated expenses	-	-	-	-	-	-	-	**5,949**
Administrative expenses	-	-	-	-	-	-	-	**(83,698)**
EBITDA[2]	**(20,518)**	**17,069**	**(1,559)**	**3,436**	**(3,512)**	**(36,525)**	**5,949**	**(35,659)**
Amortisation	-	-	-	-	-	-	-	**(17,995)**
Finance income/costs	-	-	-	-	-	-	-	**(79,219)**
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	-	**325,386**
Profit before tax	-	-	-	-	-	-	-	**192,513**
Income tax	-	-	-	-	-	-	-	**(111,158)**
Net profit				-				**81,356**
Carrying amount of debt portfolios	**6,643**	**24,906**	-	-	**1,781**	-	-	**33,329**
Cash recoveries	**6,914**	**27,164**	-	-	**1,825**	-	-	**35,904**

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

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

By reportable segments

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Revenue from credit management services	109,456	88,057
Revenue from other services	37,517	23,968
Revenue from purchased debt portfolios	33,436	30,179
Other income	2,127	16,613
Revenue from sale of merchandise and materials	85	100
	182,621	158,917

Revenue from purchased debt portfolios

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

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Interest income on debt portfolios measured at amortised cost	17,273	17,887
Gain/(loss) on expected credit losses	16,630	10,820
Other income/(expenses) from purchased debt portfolios	(467)	1,471
	33,436	30,179

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

	Jan 1–Dec 31 2021	**Jan 1–Dec 31 2020**
Revaluation of recovery projections	12,555	6,159
Deviations from actual recoveries, decreases on early collections in collateralised cases	4,075	4,661
	16,630	10,820

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

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

- discount rate in case of change in the amount of the purchased debt portfolio,
- period for which cash flows have been estimated,
- the value of expected future cash flows estimated based on current data and the debt collection processes.

The Company analyses the impact of macroeconomic factors on projected recoveries; historically, no material correlation between recoveries from purchased debt portfolios and the macroeconomic situation has been found.

Assumptions adopted in the valuation of debt portfolios

	Dec 31 2021	**Dec 31 2020**
Discount rate	28.11%–170.19%	28.11%–170.19%
Period for which collections have been estimated	Jan 2022–Dec 2036	Jan 2021–Dec 2035
Undiscounted value of future recoveries	86,162	87,508

Projected ERC from debt portfolios (undiscounted value)

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Period		
Up to 12 months	24,708	25,554
From 1 to 2 years	16,200	17,715
From 2 to 3 years	11,863	12,592
From 3 to 4 years	8,749	8,936
From 4 to 5 years	6,516	6,372
From 5 to 6 years	4,882	4,569
From 6 to 7 years	3,629	3,276
From 7 to 8 years	2,672	2,337
From 8 to 9 years	1,996	1,640
From 9 to 10 years	1,496	1,195
From 10 to 11 years	1,133	920
From 11 to 12 years	859	759
From 12 to 13 years	639	639
From 13 to 14 years	468	543
From 14 to 15 years	351	464
Over 15 years	-	-
	86,162	87,508

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Other income/(expenses) from purchased debt portfolios

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Foreign exchange gains/(losses)	(467)	1,471
	(467)	1,471

Revenue from other services

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Revenue from credit management services	109,456	88,057
Revenue from other services	37,517	23,968
Revenue from sale of merchandise and materials	85	100
	147,059	112,126

Revenue from credit management services

Revenue from fee-based credit management comprises commission fees ranging from 2% to 49% of the collected debts. Fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main client in the group of non-related entities accounts for 2% of revenue from credit management services, and in the group of related entities – for 90.6% (2020: 2% and 92.8%, respectively).

Revenue from other services

Revenue from other services includes income earned from the provision of support services and IT services as well as income from guarantee fees.

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

Other income

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Re-billing income		1,333	-
Compensation for motor damage		351	374
Reversal of allowance for expected credit losses	28.1	243	17
Other markets		136	101
Gain on sale of property, plant and equipment		46	813
Write-off of unidentified amounts		18	-
Grants		-	8,469
Adjustment to the management stock option valuation model		-	5,538
Settlement of lease payments under terminated contracts		-	1,050
Rent concessions related to COVID-19		-	250
		2,127	16,613

6. Services

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
IT services	(11,593)	(8,942)
Credit management services	(9,906)	(8,642)
Postal and courier services	(5,673)	(3,270)
Consultancy services	(3,798)	(3,203)
Communications services	(2,627)	(2,424)
Space rental and service charges	(2,512)	(2,653)
Banking services	(1,197)	(965)
Repair of vehicles	(847)	(1,005)
Security	(726)	(665)
Other auxiliary services	(492)	(923)
Repair and maintenance services	(381)	(144)
Other rental	(329)	(2)
Recruitment services	(215)	(161)
Packing services	(188)	(174)
Printing services	(157)	(449)
Marketing and management services	(157)	(309)
Transport services	(78)	(13)
	(40,875)	(33,946)

7. Other expenses

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Taxes and charges		(11,254)	(11,690)
Advertising		(5,525)	(844)
Raw materials and consumables used		(4,033)	(3,315)
Motor insurance		(1,084)	(1,063)
VAT on rental payments (leases and rents)		(914)	(169)
Court fees		(762)	(719)
Refund of litigation costs		(748)	(222)
Entertainment expenses		(639)	(71)
Other markets		(628)	(1,824)
Staff training		(577)	(596)
Losses caused by motor damage		(438)	(417)
Property insurance		(273)	(223)
Non-competition		(241)	(352)
Business trips		(220)	(294)
Membership fees		(110)	(155)
Impairment losses on receivables	28.1	(23)	(373)
Donations		-	(12)
Re-billed costs of services		-	(479)
		(27,470)	(22,818)

8. Employee benefits expense

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Salaries and wages	(119,450)	(108,746)
Equity-settled cost of stock option plan[1]	(18,576)	(4,382)
Old-age and disability pension contributions (defined contribution plans)	(17,989)	(16,503)
Other social security contributions	(9,139)	(7,058)
Contribution to the State Fund for the Disabled	(1,071)	(1,122)
	(166,225)	(137,812)

[1] *The management stock option plans are described in Note 20.*

9. Finance income and costs

Recognised as profit or loss for the period

Finance income

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest income on loans advanced and receivables	19,741	20,507
Interest income on bank deposits	5	27
	19,746	20,534

Finance costs

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Interest and commission expense on financial liabilities measured at amortised cost	(56,250)	(67,087)
including interest	*(51,975)*	*(61,824)*
Interest income/expense on hedging instruments – IRS	(9,179)	(4,422)
Net foreign exchange losses	2,954	(14,485)
Interest income/expense on derivative instruments – CIRS	4,736	(13,759)
	(57,739)	(99,753)

Effect of exchange rate movements on separate statement of profit or loss

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Realised exchange gains/(losses)		4,093	(2,944)
Revaluation of debt portfolios due to exchange rate movements	5	(467)	1,471
Unrealised exchange gains/(losses)		(1,139)	(11,541)
		2,487	(13,014)

10. Income tax

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

PLN thousand	*Note*	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Income tax (current portion recognised in profit or loss)			
Income tax		(29,978)	(17,163)
Income tax (deferred portion recognised in profit or loss)			
Temporary differences/reversal of temporary differences	16	(32,828)	(93,996)
Income tax recognised in profit or loss		(62,806)	(111,158)

Reconciliation of effective tax rate

PLN thousand	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Profit/(loss) before tax	757,564	192,513
Income tax recognised in profit or loss	(62,806)	(111,158)
Profit/(loss) before tax for the period (at 19% tax rate)	757,564	192,513
Tax calculated at the tax rate applicable in Poland (19%)	(143,937)	(36,577)
Effect of differences resulting from control over the dates of reversal of temporary differences in the valuation of the net assets of subsidiaries and the probability of their realization in the foreseeable future; and other of non-deductible expenses/non-taxable income	57,872	(74,581)
Effect of change in strategy towards subsidiary	23,259	-
	(62,806)	(111,158)
Effective tax rate	8.29%	57.74%

The lower effective tax rate in 2021 compared to 2020 results mainly from the significant share of the financial results of subsidiaries, the tax value of which will be realized over a period of more than 3 years from the balance sheet date. In turn, the higher tax rate in 2020 was mainly due to the recognition of new realizations of the value of the subsidiaries over the next 3 years in the deferred tax provision (Note 16).

Tax risk

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, 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, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland 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.

In Poland, tax settlements are subject to tax inspection for a period of five years.

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

As at Dec 31
PLN thousand

	Note	Dec 31 2021	Dec 31 2020
Assets			
Non-current assets			
Property, plant and equipment	12	39,882	37,521
Intangible assets	13	9,502	12,841
Hedging instruments	23	12,804	-
Equity-accounted investments in subsidiaries	14	3,814,418	3,315,459
Investments in debt portfolios and loans	15	361,879	283,957
Total non-current assets		4,238,485	3,649,778
Current assets			
Inventories	17	18,970	28,755
Investments in debt portfolios and loans	15	58,104	36,563
Trade receivables from related entities	18	27,331	20,594
Trade receivables from other entities	18	2,870	2,640
Other receivables	18	7,255	7,869
Hedging instruments	23	999	-
Cash and cash equivalents	19	53,698	6,595
Other assets		6,367	5,956
Total current assets		175,594	108,972
Total assets		4,414,079	3,758,750
Equity and liabilities			
Equity			
Share capital	20	19,013	19,011
Share premium		333,264	310,430
Hedging reserve		17,885	(14,783)
Translation reserve		75,708	81,360
Other capital reserves		122,202	103,626
Retained earnings		2,032,745	1,544,127
Total equity		2,600,817	2,043,771
Non-current liabilities			
Deferred tax liability	16	167,077	134,249
Provisions	26	12,606	11,156
Borrowings, other debt securities and leases	22	1,051,962	884,146
Hedging instruments	23	-	18,386
Total non-current liabilities		1,231,645	1,047,937
Current liabilities			
Provisions	26	51	124
Borrowings, other debt securities and leases	22	513,249	577,997
Derivatives	24	-	11,236
Trade and other payables	27	29,170	51,863
Income tax payable		14,995	4,358
Employee benefit obligations	25	24,153	21,464
Total current liabilities		581,617	667,042
Total liabilities		1,813,262	1,714,979
Total equity and liabilities		4,414,079	3,758,750

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

12. Property, plant and equipment

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross carrying amount of property, plant and equipment						
Gross carrying amount as at Jan 1 2020	22,108	25,955	23,787	601	184	72,635
Purchase	12,859	2,639	826	-	890	17,214
Sale/ liquidation	-	(408)	(5,608)	(16)	(872)	(6,903)
Gross carrying amount as at Dec 31 2020	34,967	28,186	19,005	585	202	82,945

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross carrying amount as at Jan 1 2021	34,967	28,186	19,005	585	202	82,945
Purchase	553	4,062	12,744	247	623	18,230
Sale/ liquidation	(3,028)	(1,130)	(10,603)	-	-	(14,761)
Gross carrying amount as at Dec 31 2021	32,492	31,119	21,147	832	825	86,415

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation and impairment losses						
Accumulated depreciation as at Jan 1 2020	(5,802)	(17,285)	(14,231)	(372)	-	(37,690)
Depreciation	(5,887)	(4,519)	(2,161)	(42)	-	(12,609)
Decrease resulting from sale/ liquidation	(1)	412	4,447	16	-	4,874
Accumulated depreciation as at Dec 31 2020	(11,689)	(21,393)	(11,944)	(398)	-	(45,425)

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation as at Jan 1 2021	(11,689)	(21,393)	(11,944)	(398)	-	(45,425)
Depreciation	(5,468)	(3,952)	(2,723)	(61)	-	(12,205)
Decrease resulting from sale/ liquidation	1,760	889	8,447	-	-	11,096
Accumulated amortisation as at Dec 31 2021	(15,397)	(24,456)	(6,221)	(460)	-	(46,534)

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount						
As at Jan 1 2020	16,306	8,670	9,556	229	184	34,944
As at Dec 31 2020	23,277	6,794	7,061	187	202	37,521
As at Jan 1 2021	23,277	6,794	7,061	187	202	37,521
As at Dec 31 2021	17,094	6,663	14,926	373	825	39,882

As of December 31st 2021 and December 31st 2020 the Company did not recognise any impairment losses on property, plant and equipment.
As at December 31st 2021 and December 31st 2020, the Company had no contractual obligations to purchase of property, plant and equipment.
Collaterals on property, plant and equipment are presented in note 22.
The data presented in the Right-of-use section is disclosed in the table above.

Right of use and lease liabilities

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	22,945	15,768
Plant and equipment	83	251
Vehicles	4,665	5,975
	27,693	21,994
Cost of depreciation of right-of-use assets in the reporting period, by class of underlying asset		
Buildings and structures	(5,431)	(5,682)
Plant and equipment	(83)	(167)
Vehicles	(2,696)	(1,835)
	(8,210)	(7,684)
Increase in right-of-use assets	12,943	13,685
Decrease in right-of-use assets due to liquidation/termination of contract	(1,723)	(300)
Carrying amount of right-of-use assets, by class of underlying asset at the end of the reporting period		
Buildings and structures	16,629	22,945
Plant and equipment	321	83
Vehicles	13,753	4,665
	30,703	27,693
Interest expense relating to lease liabilities	814	865
Cost relating to variable lease payments not included in the measurement of lease liabilities	-	11
Total cash outflow in connection with leases	10,221	8,054

13. Intangible assets

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Gross carrying amount of intangible assets					
Gross carrying amount as at Jan 1 2020	30,294	369	69	976	31,708
Produced internally	790	-	-	-	790
Purchase	298	-	-	2,347	2,644
Decreases as a result of liquidation	(2,485)	-	(69)	-	(2,554)
Gross carrying amount as at Dec 31 2020	28,897	369	-	3,323	32,589
Gross carrying amount as at Jan 1 2021	28,897	369	-	3,323	32,589
Produced internally	444	-	-	-	444
Purchase	192	-	-	1,136	1,328
Decreases as a result of liquidation	(2,340)	-	-	-	(2,340)
Accounting for deferred assets	4,221	-	-	(4,221)	-
Gross carrying amount as at Dec 31 2021	31,414	369	-	238	32,021

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation and impairment losses					
Accumulated amortisation as at Jan 1 2020	(16,255)	(369)	-	-	(16,624)
Amortisation	(5,386)	-	-	-	(5,386)
Decreases as a result of liquidation	2,262	-	-	-	2,262
Accumulated amortisation as at Dec 31 2020	(19,379)	(369)	-	-	(19,748)
Accumulated amortisation as at Jan 1 2021	(19,379)	(369)	-	-	(19,748)
Amortisation	(4,702)	-	-	-	(4,702)
Decreases as a result of liquidation	1,931	-	-	-	1,931
Accumulated amortisation as at Dec 31 2021	(22,150)	(369)	-	-	(22,519)

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2020	14,039	-	69	976	15,084
As at Dec 31 2020	9,519	-	-	3,323	12,841
As at Jan 1 2021	9,519	-	-	3,323	12,841
As at Dec 31 2021	9,265	-	-	238	9,502

As at December 31st 2021 and December 31st 2020, the Company did not recognise any impairment losses on intangible assets.

As at December 31st 2021 and December 31st 2020, the Company did not have any intangible assets with restricted legal title, and none of the intangible assets were pledged as security for liabilities.

As at December 31st 2021 and December 31st 2020, the Company had no contractual obligations to purchase intangible assets.

14. Investments in subsidiaries

PLN thousand	Country	Carrying amount Dec 31 2021	Carrying amount Dec 31 2020
InvestCapital Ltd[1]	Malta	2,160,283	1,780,511
Prokura NS FIZ [1]	Poland	1,008,030	936,579
SeCapital S.à r.l.[1]	Luxembourg	340,837	241,417
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	73,351	59,707
Presco Investments S.a.r.l.[3]	Luxembourg	65,341	79,384
KRUK Espana S.L.	Spain	38,751	39,772
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	32,579	31,713
KRUK Romania S.r.l.	Romania	28,412	20,186
KRUK Italia S.r.l [4]	Italy	16,089	36,339
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	10,704	18,077
ERIF Biuro Informacji Gospodarczej S.A.	Poland	9,324	9,904
Kruk Deutschland GmbH	Germany	8,305	9,772
RoCapital IFN S.A.[1]	Romania	7,851	7,456
Kancelaria Prawna RAVEN P. Krupa Sp. k.	Poland	7,824	22,838
AgeCredit S.r.l.	Italy	6,105	9,303
ProsperoCapital S.à r.l. [2]	Luxembourg	632	655
ERIF Business Solutions Sp. z o.o.	Poland	-	(252)
Novum Finance Sp. z o.o.[1]	Poland	-	12,095
Wonga.pl Sp. z o.o.	Poland	-	-
Kruk Investimenti s.r.l.	Italy	-	-
Zielony Areał sp. z o.o.	Poland	-	-
		3,814,418	3,315,459

[1] Subsidiaries in which the Company directly and indirectly holds 100% of the share capital.
[2] ProsperoCapital S.a.r.l is a party to a joint arrangement.
[3] The equity of P.R.E.S.C.O INVESTMENT I NS FIZ is consolidated within Presco Investments S.a.r.l.
[4] The equity of Elleffe Capital S.r.l. is consolidated within Kruk Italia S.r.l.

	Dec 31 2021	Dec 31 2020
Carrying amount of investments in subsidiaries at beginning of the period	3,315,459	3,352,745
Share of profit/(loss) of equity-accounted investees	864,412	325,386
Translation reserve	(5,652)	111,579
Increase/(decrease) (dividends, in-kind contributions, cancellations, impairment losses)	(359,802)	(474,251)
Carrying amount of investments in subsidiaries at end of the period	3,814,418	3,315,459

The share in profit/(loss) of equity-accounted investees for the period from January 1st to December 31st 2021 was PLN 864,412 thousand, reflecting mainly revenue from recoveries and revaluation of recovery projections for debt portfolios owned by the investees, net of costs.

On December 1st 2021, KRUK S.A. contributed to Wonga.pl Sp. z o.o. a non-cash contribution in the form of 200 shares in Novum Finance Sp. z o.o. in exchange for 67,259 shares in Wonga.pl Sp. z o.o. As a result, the carrying amount of shares in Wonga.pl Sp. z o.o. increased by PLN 3,363 thousand, and Novum Finance Sp. z o.o. shares were derecognised.

In 2021, the Company received dividends from the following related parties:

- Presco Investments S.a.r.l. – PLN 49,806 thousand,
- Kancelaria Prawna Raven P. Krupa sp.k. – PLN 11,490 thousand,
- KRUK Deutschland Gmbh – PLN 2,927 thousand,
- ERIF Biuro Informacji Gospodarczej S.A. – PLN 1,999 thousand.

In 2020, the Company received dividends from the following related parties:

- Kancelaria Prawna Raven P. Krupa sp.k. – PLN 18,683 thousand,
- Kruk Romania S.r.l. – PLN 7,907 thousand,
- ERIF Biuro Informacji Gospodarczej S.A. – PLN 2,266 thousand,
- Novum Finance Sp. z o.o. – PLN 829 thousand.

PLN thousand	Country	Ownership interest and share in total voting rights (%) Dec 31 2021	Dec 31 2020
SeCapital S.à r.l.[1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o. (in liquidation)[5]	Poland	-	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.[1]	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN P.Krupa Sp. k.	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.[1]	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.L.	Spain	100%	100%
ProsperoCapital S.à r.l. [2]	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
P.R.E.S.C.O INVESTMENT I NS FIZ [1]	Poland	100%	100%
Elleffe Capital S.r.l.[1]	Italy	100%	100%
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	100%	100%
Corbul S.r.l [3]	Romania	0%	0%
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	100%
Gantoi, Furculita Si Asociatii S.p.a.r.l.[3]	Romania	0%	0%
Kruk Investimenti s.r.l.[5]	Italy	100%	n/a
Zielony Areał Sp. z o.o.[6]	Poland	100%	n/a

[1] Subsidiaries in which the Company directly and indirectly holds 100% of the share capital.
[2] ProsperoCapital S.a.r.l is a party to a joint arrangement.
[3] The Parent controls the company through a personal link.
[4] On July 1st 2020, the Extraordinary General Meeting of Secapital Polska Sp. z o.o. of Wrocław decided to dissolve the company through liquidation. On February 25th 2021, the Extraordinary General Meeting of Secapital Polska Sp. z o.o. in liquidation passed a resolution on approval of the liquidation report and on completion of the liquidation. On March 9th 2021, the registry court issued a decision to delete Secapital Polska Sp. z o.o. in liquidation from the business register.
[5] On April 29th 2021, the articles of association of KRUK INVESTIMENTI S.R.L. of Milan were executed. On May 6th 2021, the company was entered in the Business Register. The principal business activity of the company involves investment in debt portfolios. KRUK S.A. holds 100% of shares in the newly incorporated company.
[6] On September 9th 2021, the Articles of Association of Zielony Areał Sp. z o.o. of Wrocław were executed. On October 4th 2021, the company was entered in the Business Register.
Its principal business activities are buying and selling of own real estate, including farmland.

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2021 and for the period from January 1st to December 31st 2021.

In 2021, the Parent increased the share capital of the subsidiary InvestCapital Ltd. by PLN 172,000 thousand.

In 2021, the Parent made additional contributions to the equity of the subsidiary KRUK Espania S.r.l totalling PLN 10,937 thousand.

In 2021, the Parent made additional contributions to the equity of the subsidiary Agecredit S.r.l of PLN 3,130 thousand.

In 2021, the Parent reduced the share capital of the subsidiary InvestCapital Ltd. by PLN 250,222 thousand.

In 2021, the Parent redeemed the certificates at the subsidiary PROKURA NS FIZ for PLN 199,045 thousand.

In 2021, the Parent redeemed the certificates at the subsidiary BISON NS FIZ for PLN 12,807 thousand.

In 2021, the Parent received a PLN 7,047 thousand return of contributions to the equity of its subsidiary KRUK Italy S.r.l.

In 2021, the Parent received a PLN 3,328 thousand return of contributions to the equity of its subsidiary KRUK Deutschland Gmbh.

In 2020, the Parent received a PLN 6,095 thousand return of contributions to the equity of its subsidiary KRUK Deutschland Gmbh.

In 2020, the Parent made additional contributions to the equity of the subsidiary KRUK Italy S.r.l totalling PLN 7,243 thousand.

In 2020, the Parent made additional contributions to the equity of the subsidiary KRUK Espania S.r.l of PLN 18,430 thousand.

In 2020, the Parent made additional contributions to the equity of the subsidiary Agecredit S.r.l of PLN 1,354 thousand.

In 2020, the Parent reduced the share capital of the subsidiary InvestCapital Ltd. by PLN 209,367 thousand.

In 2020, the Parent reduced the share capital of the subsidiary Secapital S.a.r.l. by PLN 2,079 thousand.

In 2020, the Parent redeemed the certificates at the subsidiary PROKURA NS FIZ for PLN 116,650 thousand.

In 2020, the Parent redeemed the certificates at the subsidiary BISON NS FIZ for PLN 870 thousand.

Impairment testing of investments in subsidiaries

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

The value in use is calculated based on the present value of expected future cash flows generated by the unit (CGU), estimated based on a financial forecast prepared by the company for a period of four years, and in the case of funds the value in use is calculated based on net asset value as at the reporting date.

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The cash flows were discounted with the weighted average cost of capital for the debt collection industry, which varies depending on the country where the tested asset is present (see the table below).

Country where the tested asset is present	Spain	Italy	Poland	Romania	Germany	Czech Republic
Weighted average cost of capital for the debt collection industry in 2021	6.06%	6.48%	6.92%	8.39%	4.68%	6.53%
Weighted average cost of capital for the debt collection industry in 2020	6.00%	5.33%	5.09%	6.56%	3.82%	4.94%

In 2021, the residual value was calculated using a growth rate calculated as the average of projected inflation rates in the forecast period of 1.37%–2.87%, depending on the country (0.95%-2.61% in 2020).

The discount rate applied in the DCF model used in tests for impairment of investments in subsidiaries and of assets reflects the current market assessment of the credit risk for the debt collection industry in the country where the tested asset is present. The Company applied the weighted average cost of capital for the debt collection industry. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets.

Joint arrangements

On July 29th 2016, KRUK S.A., acting through its related entities ProsperoCapital S.à.r.l of Luxembourg ("ProsperoCapital") and Invest Capital Ltd. of Malta ("ICM"), entered into an agreement with International Finance Corporation ("IFC") (an entity related to the World Bank; "IFC") concerning joint purchase of debt portfolios in the Romanian market and outsourcing of their management to a jointly selected entity in accordance with a debt portfolio management strategy approved by both parties. The agreement is effective until August 3rd 2022, but may be extended by another four years. It is a significant agreement for the Company as it has enabled a considerable increase in market share in Romania. The agreement meets the criteria to be classified as a joint arrangement and is performed in the form of a joint operation; as such it is subject to disclosure in the financial statements based on a proportional share in assets and liabilities.
In making an assessment whether the agreement meets the criteria of joint control, the Company did not rely on subjective judgement. The rules governing joint control of ProsperoCapital were provided for in the agreements signed between the jointly-controlling parties:

• the Company and IFC hold respectively 67% and 33% of the rights to the assets and liabilities of ProsperoCapital;

• the debt portfolio purchase was financed through an issue of bonds by ProsperoCapital, 67% of which were acquired by ICM and 33% – by IFC; all the risks and benefits are allocated to the entity acquiring the bonds;

• a unanimous consent of both parties is required to make any material decision:

− both parties must approve the debt management strategy (updated on a semi-annual basis) and the business plan,

− neither of the parties may unilaterally make any material changes in the company's structure or its managing bodies.

• any recoveries from the debt portfolio, which are used to finance redemption of the bonds, are distributed pro-rata to the parties' rights to assets;

• after expiry of the contractual term, the parties share the purchased debt (measured as at the agreement termination date) in accordance with the strategy.

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

• the economic substance of the transaction, according to which the Company invested in the purchase of debt portfolios and not in bonds of ProsperoCapital;

• the nature of payments under the bonds, which indicates that this is a 'pass through' transaction, as the redemption of the bonds is closely related to cash flows from the purchased debt portfolios;

• under the executed agreement, the parties to the joint operation do not have the right to net assets but to assignment of the claims incorporated in the purchased debt portfolio for the purpose of satisfaction of any amounts that remain unpaid under the bonds after expiry of the agreement term.

As at December 31st 2021, the carrying amount of the Company's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 61,474 thousand (PLN 81,953 thousand as at December 31st 2020), while profit shown in the statement of profit or loss was PLN 37,574 thousand (2020: PLN 33,425 thousand).

15. Investments measured at amortised cost

PLN thousand	Dec 31 2021	Dec 31 2020
Investments measured at amortised cost		
Investments in debt portfolios	31,787	33,329
Loans to related parties	388,195	287,191
	419,983	320,520

Investments in debt portfolios

For the rules followed in the valuation of investments in debt portfolios, see Note 3.3.1. Investments in debt portfolios are divided into the following main categories:

PLN thousand	Dec 31 2021	Dec 31 2020
Investments in debt portfolios		
Unsecured portfolios	31,661	32,956
Secured portfolios	126	373
	31,787	33,329

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

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

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

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

Sensitivity analysis – revaluation of recovery 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 240 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 240 thousand for the data as at December 31st 2021 (a PLN 243 thousand increase/decrease, respectively, for the data as at December 31st 2020).

PLN thousand

	Profit or loss for the current period	
	increase in collections by 100 bps	**decrease in collections by 100 bps**
Dec 31 2021		
Investments in debt portfolios	240	(240)
Dec 31 2020		
Investments in debt portfolios	243	(243)

Sensitivity analysis – time horizon

The sensitivity analysis presented below assumes extension or shortening of the projection period with a simultaneous increase or decrease in the recovery projections (in the case of extension by one year, projected recoveries increased by PLN 262,7 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 350,8 thousand; for 2020 PLN 396,4 thousand and PLN 464,1 thousand, respectively).

PLN thousand

	Profit or loss for the current period	
	extension by one year	**reduction by one year**
Dec 31 2021	0.05	(0.10)
Investments in debt portfolios		
Dec 31 2020		
Investments in debt portfolios	0.01	(0.01)

Changes in carrying amount of investments in debt portfolios

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

PLN thousand

Carrying amount of investments in debt portfolios as at Jan 1 2020	36,949
Purchase price adjustment for discount	(16)
Cash recoveries	(35,904)
Carrying amount of property sold	210
Gain/(loss) on sale/revaluation of property[1]	1,911
Revenue from purchased debt portfolios	30,179
Carrying amount of investments in debt portfolios as at Dec 31 2020	**33,329**
Carrying amount of investments in debt portfolios as at Jan 1 2021	33,329
Purchase price adjustment for discount	
Cash recoveries	(38,239)
Gain/(loss) on sale/revaluation of property[1]	3,261
Revenue from purchased debt portfolios	33,436
Carrying amount of investments in debt portfolios as at Dec 31 2021	**31,787**

[1]*With effect as of 2021, in order to maintain consistency with the statement of profit and loss, the Company changed the treatment of profit on sale/revaluation of real estate, and transferred it to a separate line item.*

For a description of revenue from purchased debt portfolios, see Note 5.

Changes in expected credit losses

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

PLN thousand

Cumulative expected credit losses on purchased debt portfolios as at Jan 1 2020	220,383
Revaluation of recovery projections	6,159
Deviations from actual recoveries, decreases on early collections in collateralised cases	6,317
Cumulative expected credit losses on purchased debt portfolios as at Dec 31 2020	**232,859**
Cumulative expected credit losses on purchased debt portfolios as at Jan 1 2021	232,859
Revaluation of recovery projections	12,555
Deviations from actual recoveries, decreases on early collections in collateralised cases	7,661
Cumulative expected credit losses on purchased debt portfolios as at Dec 31 2021	**253,075**

Loans to related parties

As at December 31st 2021, the gross carrying amount of loans to related parties was PLN 425,829 thousand, and the loss allowance was PLN 37,635 thousand (December 31st 2020: PLN 310,886 thousand and PLN 23,695 thousand, respectively).

For information on the Company's exposure to credit, currency and interest rate risks associated with its investments, and on allowances for expected credit losses on loans, see Note 28.

16. Deferred tax

Deferred tax assets and liabilities

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

	Assets		Provisions		Net carrying amount	
PLN thousand	Dec 31 2021	Dec 31 2020	Dec 31 2021	Dec 31 2020	Dec 31 2021	Dec 31 2020
Property, plant and equipment	6,279	5,581	(6,198)	(5,659)	81	(78)
Intangible assets	-	-	(1,712)	(1,540)	(1,712)	(1,540)
Trade and other receivables	-	-	(245)	(268)	(245)	(268)
Borrowings and other debt instruments, leases	7,775	21,112	-	-	7,775	21,112
Employee benefit obligations	2,282	2,309	-	-	2,282	2,309
Provisions and liabilities	40	56	-	-	40	56
Investments in debt portfolios	-	-	(6,974)	(6,984)	(6,974)	(6,984)
Equity-accounted investments in subsidiaries	-	23,259	(168,325)	(172,116)	(168,325)	(148,857)
Deferred tax assets/liabilities	16,376	52,317	(183,453)	(186,567)	(167,077)	(134,249)
Deferred tax assets offset against liabilities	(16,376)	(52,317)	16,376	52,317	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(167,077)	(134,249)	(167,077)	(134,249)

Change in temporary differences in the period

PLN thousand	Net amount of deferred tax at Jan 1 2021	Change in temporary differences recognised in profit or loss for the period	Net amount of deferred tax at Jan 1 2021	Net amount of deferred tax at Jan 1 2021	Change in temporary differences recognised in profit or loss for the period	Net amount of deferred tax at Jan 1 2021
Property, plant and equipment	(78)	159	81	(263)	185	(78)
Intangible assets	(1,540)	(172)	(1,712)	(2,263)	723	(1,540)
Trade and other receivables	(268)	24	(245)	(243)	(25)	(268)
Borrowings and other debt instruments, leases	21,112	(13,337)	7,775	18,496	2,616	21,112
Employee benefit obligations	2,309	(27)	2,282	2,342	(33)	2,309
Provisions and liabilities	56	(16)	40	112	(56)	56
Investments in debt portfolios	(6,984)	10	(6,974)	(7,108)	124	(6,984)
Equity-accounted investments in subsidiaries	(148,857)	(19,468)	(168,325)	(51,327)	(97,530)	(148,857)
	(134,249)	(32,828)	(167,077)	(40,254)	(93,996)	(134,249)

The Company 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 December 31st 2021 was PLN 2,332,410 thousand (as at December 31st 2020: PLN 1,205,363 thousand).

Unrecognised deferred tax asset due to tax loss

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

Tax losses and periods over which they can be utilised:

PLN thousand	**Tax loss expiry**	**Dec 31 2021**	**Dec 31 2020**
Tax loss for 2018	Dec 31 2023	17,575	29,836
Tax loss for 2019	Dec 31 2024	1,088	1,088
		18,663	30,924
Applicable tax rate		19%	19%
Potential benefit of tax losses		3,546	5,876

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

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Real property	18,970	28,755
	18,970	28,755

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

PLN thousand	
Carrying amount of property held as at Jan 1 2020	**30,279**
Carrying amount of foreclosed property	11,162
Carrying amount of property sold	(12,539)
Impairment loss on property	(148)
Carrying amount of property held as at Dec 31 2020	**28,755**
Carrying amount of property held as at Jan 1 2021	**28,755**
Carrying amount of foreclosed property	6,136
Carrying amount of property sold	(10,292)
Impairment loss on property	(5,628)
Carrying amount of property held as at Dec 31 2021	**18,970**

To better reflect the underlying drivers of the change in the carrying amount of property, the Company combined proceeds from disposal of property and income from sale of property into one line item Carrying amount of property sold. In addition, impairment losses were presented in a separate line item. As at December 31st 2021, impairment losses on property were PLN 5,628 thousand (December 31st 2020: PLN 148 thousand).

18. Trade and other receivables

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Trade receivables from related entities	27,331	20,594
Trade receivables from other entities	2,870	2,640
	30,200	23,234

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Other receivables from related entities	4,954	4,308
Other receivables from other entities	2,223	3,561
Employee loans	78	-
	7,255	7,869

For information on the Company's exposure to credit risk and currency risk related to receivables and on losses on expected credit losses, see Note 28.

19. Cash and cash equivalents

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Cash in hand	1	8
Cash in current accounts	14,766	6,588
Cash proceeds from bond issues deposited in brokerage account[1]	38,931	-
	53,698	6,595

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

For information on the Company's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 28.

20. Equity

Share capital

'000	Ordinary shares Dec 31 2021	Dec 31 2020
Number of shares as at Jan 1	19,011	18,972
Issue of shares	273	39
Cancellation of treasury shares	(271)	-
Number of fully-paid shares at end of period	19,013	19,011

Company's shareholding structure

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

As at Dec 31 2021	Number of shares	Total par value (PLN)	Ownership interest (%)
Shareholder			
Piotr Krupa	1,771,463	1,771	9.32%
NN PTE[1]	2,802,261	2,802	14.74%
Aviva OFE	1,726,000	1,726	9.08%
PZU OFE	1,650,000	1,650	8.68%
Allianz OFE	1,007,672	1,008	5.30%
Aegon OFE	959,254	959	5.05%
Other members of the Management Board and Supervisory Board	139,020	139	0.73%
Other shareholders	8,957,228	8,957	47.11%
	19,012,898	19,013	100.00%

As at Dec 31 2020	Number of shares	Total par value (PLN)	Ownership interest (%)
Shareholder			
Piotr Krupa	1,827,613	1,828	9.63%
NN PTE[1]	2,457,398	2,457	12.95%
Aviva OFE	1,788,000	1,788	9.42%
PZU OFE	1,856,437	1,856	9.79%
Allianz OFE	1,009,299	1,009	5.32%
Other members of the Management Board and Supervisory Board	133,620	134	0.70%
Other shareholders	9,899,444	9,899	52.18%
	18,971,811	18,972	100.00%
Other shareholders (unregistered shares):	39,234	39	
	19,011,045	19,011	

[1] Joint shareholding of NN OFE and NN DFE, managed by NN PTE S.A.

Other capital reserves

Other capital reserves are created by virtue of relevant resolutions of the Parent's General Meeting, which has the power to decide on allocation of such reserves. In addition, capital reserves are also created when benefits are granted to employees under share-based payments.

Share-based payments

Incentive scheme for 2015–2019

The incentive scheme for 2015-2019 was adopted by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the 2015-2019 Scheme), as amended by Resolution No. 23/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020 to amend Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of Wrocław of May 28th 2014 on setting the rules of an incentive scheme for 2015–2019, conditional increase of the Company's share capital and issue of subscription warrants with the Company shareholders' pre-emptive rights waived in whole with respect to shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association.
It is the second incentive scheme operated by the KRUK Group.
Under the 2015−2019 Incentive Scheme, eligible persons obtained the right to acquire Series F Company shares on preferential terms set forth in the resolution. The eligible persons comprised members of the Management Board, including the President, as well as Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary, or in other legal relationship under which they provided services to the Parent or its subsidiary, for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants is made.

For the purposes of the 2015–2019 Incentive Scheme, the General Meeting approved a conditional increase of the Company's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase was to grant the right to subscribe for Series F shares to holders of subscription warrants that would be issued under the 2015−2019 Incentive Scheme. Holders of the subscription warrants became entitled to exercise the rights to subscribe for Series F shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who were not Management Board members became entitled to exercise the rights to subscribe for Series F shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants could not be exercised by their holders until the lapse of at least 12 months from the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

Warrants were issued in five tranches, one for each of the following years of the reference period, i.e. for the financial years 2015−2019.

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Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS (calculated on the basis of the Group's consolidated financial statements) increases at a CAGR of no less than 13.00% relative to the base year. Under the Scheme, the Company may finance purchase of Series F shares by the eligible persons on the terms defined in the resolution. Subscription warrants may be inherited, but may not be encumbered and are not transferable.

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

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

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

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

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

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

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

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

Name and surname	Number of warrants granted in Tranches 1 to 5	Number of warrants held under Tranches 1 to 5
Piotr Krupa	83,942	83,942
Piotr Kowalewski*	22,138	17,138
Adam Łodygowski**	-	-
Urszula Okarma	63,893	63,893
Michał Zasępa	63,893	50,728
Agnieszka Kułton***	56,663	-
Iwona Słomska****	56,663	16,250

**Piotr Kowalewski had been covered by the Incentive Scheme for 2015–2019 as an eligible person other than a member of the Management Board until May 28th 2020. Since May 29th 2020, when he assumed the position of member of the KRUK S.A. Management Board, Piotr Kowalewski has become entitled to acquire Tranche 5 subscription warrants as an eligible person being a member of the Management Board.*
***Adam Łodygowski became a member of the Management Board of KRUK S.A. on November 6th 2020.*
**** Agnieszka Kułton, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until May 28th 2020.*
***** Iwona Słomska, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until July 31st 2020.*

Incentive scheme for 2021–2024

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Dec 31 2021	Dec 31 2020
Number of options		
Number of options priced under the 2015−2019 Plan at the beginning of the reporting period*:	873,376	837,976
Number of options priced under the 2015−2019 Plan during the reporting period*:	42,089	35,400
Number of options priced under the 2015−2019 Plan at the end of the reporting period*:	915,465	873,376

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Number of options forfeited under the 2015–2019 Plan during the reporting period**:	-	11,822
Number of options exercised under the 2015–2019 Plan during the reporting period:	272,853	39,234
Number of options exercisable under the 2015–2019 Plan at the end of the reporting period:	275,276	327,046
Issue price of options in the 2015–2019 Incentive Scheme	**83.52**	**83.52**

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

** The number of options priced includes all options priced under the Plan, including forfeited options; Priced options mean options granted.** Forfeited options are priced options that have not been delivered for reasons provided for in the Rules of the Incentive Scheme.*

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

As at December 31st 2021 and December 31st 2020, the amount of liabilities under share-based payment transactions was PLN 0. For information on costs of the Incentive Scheme, see Note 30.

21. Earnings per share

Basic earnings per share

As at December 31st 2021, basic separate and consolidated earnings per share were calculated based on net profit/(loss) attributable to ordinary shareholders of the Company of PLN 694,758 thousand (2020: PLN 81,356 thousand) and the weighted average number of shares in the period of 18,966 thousand (2020: 18,977 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Net profit for period	694,758	81,356
Net profit attributable to owners of the Company	694,758	81,356

Consolidated net profit attributable to owners of the Parent

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Separate net profit attributable to owners of the Parent (basic)	694,758	81,356
Separate net profit attributable to owners of the Parent (diluted)	694,758	81,356

Weighted average number of ordinary shares

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

Separate and consolidated diluted earnings per share

As at December 31st 2021, diluted separate and consolidated earnings per share were calculated based on net profit/(loss) attributable to ordinary shareholders of the Company of PLN 694,758 thousand (2020: PLN 81,356 thousand) and the weighted average diluted number of shares in the period of 19,407 thousand (2020: 19,260 thousand). The amounts were determined as follows:

'000	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Number of ordinary shares as at Jan 1	18,966	18,977
Effect of issue of unregistered shares not subscribed for	441	283
Weighted average number of ordinary shares at end of reporting period (diluted)	19,407	19,260
PLN		
Earnings per share (diluted)	35.80	4.22

Dividend per share paid

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

22. Borrowings, other debt securities and leases

The note contains information on the Company's borrowings, other debt securities and leases. Information on the Company's exposure to currency, liquidity and interest rate risks is presented in Note 28.

Terms and repayment schedule of borrowings, other debt securities and leases

PLN thousand	Dec 31 2021	Dec 31 2020
Non-current liabilities		
Secured borrowings	196,000	94,300
Liabilities under debt securities (unsecured)	833,032	769,933
Lease liabilities	22,929	19,913
	1,051,962	884,146
Current liabilities		
Secured borrowings	31,465	23,152
Liabilities under debt securities (unsecured)	471,727	544,314
Lease liabilities	10,057	10,531
	513,249	577,997
	1,565,210	1,462,143

Realised and unrealised exchange differences affecting changes in financial liabilities was PLN -621 thousand in 2021 and PLN -18,710 thousand in 2020.

Liabilities repayment schedule

PLN thousand	Currency	Nominal interest rate	Maturity periods[1]	Dec 31 2021	Dec 31 2020
Borrowings secured over the Company's assets	PLN/EUR	1M WIBOR + 1 pp - 2 pp margin3M WIBOR + 2pp margin1M EURIBOR + 2.2 pp - 2.4 pp margin	2022–2026	227,465	117,452
Liabilities under debt securities (unsecured)	PLN EUR	3M WIBOR + 3.25 pp - 4.0 pp margin 4.00-4.80%[2] 3.59%	2022–2027	1,304,759	1,314,247
Lease liabilities	PLN	3M WIBOR or 1M EURIBOR + 0.8-9.7 pp.; 3.3-4.4%	2022–2026	32,986	30,444
				1,565,210	1,462,143

[1] maturity of the last liability
[2] fixed interest rate

Change in financial liabilities

PLN thousand	At the Dec 31 2021	Proceeds	Repayment	Finance costs	Interests paid	(Gain)/loss on sale of property, plant and equipment	Compensation with equity contribution to subsidiary's capital	At the Dec 31 2020
Borrowings secured over the Company's assets	**227,465**	994,534	(865,171)	1,266	(1,836)	-	(18,779)	**117,452**
Liabilities under debt securities (unsecured)	**1,304,759**	535,000	(540,000)	51,049	(55,537)	-		**1,314,247**
Lease liabilities	**32,986**	12,920	(7,888)	373	(731)	(2,131)	-	**30,444**
	1,565,210	1,542,453	(1,413,060)	52,688	(58,104)	(2,131)	(18,779)	**1,462,143**

Security over assets

PLN thousand	Dec 31 2020	Dec 31 2020
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	411,453	599,642
Property, plant and equipment used under lease contracts	14,926	7,061
	426,379	606,703

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

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

23. Hedging instruments

Derivatives designated for hedge accounting

Interest rate risk hedges

The Company's exposure to interest rate risk arises mainly from borrowings and debt securities issued (Notes 22 and 28.3).

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

The interest rate risk management policy covers:

- the Company's objectives in terms of interest rate risk,
- methods of interest rate risk monitoring;
- the Company's permissible exposure to the interest rate risk,
- procedures in case of exceeding the Company's permissible exposure to the interest rate risk,
- interest rate risk management rules of the Company,

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

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

Contract 1: The Company pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: March 2nd 2022

Contract 2: The Company pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period). Maturity date: May 4th 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company expects cash flows to be generated and to have an effect on its results until 2024.

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

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

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

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

Open outstanding IRS contracts held by the Company as at December 31st 2021 and December 31st 2020, with a total volume of PLN 530,000 thousand:

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

with the IFRS endorsed by the EU (PLN '000)

Currency risk hedges

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

- the Company's currency risk management objectives,
- the key rules of currency risk management at the Company;
- acceptable impact of currency risk on the Company's profit or loss and equity (currency risk appetite);
- methods of measuring and monitoring currency risk and currency risk exposure;
- procedures to be followed in the case of exceeding permitted currency risk appetite and specified currency risk limits;
- currency risk hedging policies;
- roles and responsibilities in the currency risk management process.

In 2021 and 2020, the Company took steps to hedge currency risk arising from cash flows from foreign subsidiaries by entering into hedging transactions. The Company's objective is to reduce the effect of exchange differences on cash flows from subsidiaries. Transactions entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

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

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Aug 31 2021	Sep 30 2021	- 8,000,000	36,180,800
Aug 31 2021	Sep 30 2021	- 14,000,000	63,316,400
Sep 30 2021	Oct 31 2021	- 8,000,000	37,062,000
Sep 30 2021	Oct 31 2021	- 14,000,000	64,858,500
Oct 10 2021	Nov 30 2021	- 22,000,000	101,706,000
Nov 30 2021	Dec 31 2021	- 32,000,000	149,580,800

As at December 31st 2021 and December 31st 2020, the Company had not unsettled forward contracts.

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

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

The Company does not expect the IBOR reform to have a material impact on hedging relationships in hedge accounting.

The Company takes measures to ensure that it is prepared for a possible change in the benchmarks underlying the concluded hedging instruments in the event the 3M WIBOR rate ceases to be provided. In particular, the Company continuously monitors regulatory changes in benchmarks and negotiates amendments to the Master Agreements governing the hedging instruments, in order to prepare optimal procedures for transition to an alternative benchmark if necessary.

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

Amounts related to open position designated as hedging instruments

PLN thousand	Dec 31 2021				Dec 31 2020					
	Assets	**Liabilities**	**Notional amount**	**Change in fair value used to determine ineffectiveness**	**Assets**	**Liabilities**	**Notional amount**	**Change in fair value used to determine ineffectiveness**	**Item in the statement of financial position**	**Type of security**
Instrument type:										
IRS	13,803	-	530,000 (PLN)	32,189	-	18,386	530,000 (PLN)	14,861	Hedging instruments	Cash flow hedges
	13,803	**-**		**32,189**	**-**	**18,386**		**14,861**		

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

PLN thousand	Amount of future cash flows as at Dec 31 2020				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	(4,121)	(5,183)	(281,855)	(260,714)	-
floating payment PLN	4,121	5,183	281,855	260,714	-

PLN thousand	Disclosure of the hedged item as at Dec 31 2021			
	Nominal amount of the hedged item	**Change in the fair value of the hedged item**	**Reserve for measurement of continuing hedges**	**Reserve (unsettled) for measurement of discontinued hedges**
Hedge of future cash flows (interest rate risk)	530,000	32,189	13,803	-
Hedging of a net investment in a foreign operation (currency risk)	-	-	-	4,082

PLN thousand	Disclosure of the hedged item as at Dec 31 2020			
	Nominal amount of the hedged item	**Change in the fair value of the hedged item**	**Reserve for measurement of continuing hedges**	**Reserve (unsettled) for measurement of discontinued hedges**
Hedge of future cash flows (interest rate risk)	530,000	14,861	(18,386)	-
Hedging of a net investment in a foreign operation (currency risk)	-	-	-	3,603

PLN thousand	Jan 1–Dec 31 2021		
Cash flow hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of future cash flows (currency risk)**	**Total hedge reserve**
Hedge reserve as at Jan 1 2021	(18,386)	3,603	(14,783)
Measurement of instruments charged to capital reserves	41,368	479	41,846
Amount reclassified to profit or loss during the period	(9,179)	-	(9,179)
- Interest expense	(9,179)	-	(9,179)
- Reclassification of exchange differences	-	-	-
Hedge reserve as at Dec 31 2021	13,803	4,082	17,885

PLN thousand	Jan 1-Dec 31 2020		
Cash flow hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of future cash flows (currency risk)**	**Total hedge reserve**
Hedge reserve as at January 1st 2020	(3,525)	3,603	78
Measurement of instruments charged to capital reserves	(10,439)	-	(10,439)
Amount reclassified to profit or loss during the period	(4,422)	-	(4,422)
- Interest expense	(4,422)	-	(4,422)
- Reclassification of exchange differences	-	-	-
Hedge reserve as at Dec 31 2020	(18,386)	3,603	(14,783)

24. Derivatives

In 2017, the Company entered into two foreign currency interest rate swaps (CIRS) to pay a coupon based on a fixed EUR interest rate and to receive a coupon based on a variable PLN interest rate. The contracts hedge both currency risk and interest rate risk as they effectively change the debt contracted in the złoty with euro-denominated liabilities:

The contracts provided hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in reference interest rates (hedging a part of the coupon on PLN 90m worth of Series AA1 bonds and on PLN 100m worth of Series Z1 bonds) and by assets denominated in a convertible currency due to interest rate fluctuations (hedging of EUR-denominated cash flows from investments in subsidiaries).

Open outstanding CIRS contracts held by the Company as at December 31st 2020:

Bank	Company	Type of transaction	Volume	Side of transaction - Buy /Sale of fixed rate	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	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

In 2021, all transactions were executed. As at December 31th 2021, the Company did not carry any unsettled forward contracts.

25. Employee benefit obligations

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Provision for accrued holiday entitlements	5,569	5,909
Salaries and wages payable	6,892	6,855
Social benefit obligations	8,172	6,395
Personal income tax	2,855	1,953
Special accounts	340	97
Liabilities under employee savings plans	326	255
	24,153	21,464

Change in provision for accrued holiday entitlements

Change in provisions for accrued holiday entitlements	
Carrying amount as at Jan 1 2020	5,421
Increase	6,210
Use	(5,722)
Carrying amount as at Dec 31 2020	5,909
Carrying amount as at Jan 1 2021	5,909
Increase	5,778
Use	(6,118)
Carrying amount as at Dec 31 2021	5,569

26. Provisions

PLN thousand	Dec 31 2021	Dec 31 2020
Provision for the loyalty scheme	11,750	10,652
Provision for retirement gratuities	907	628
	12,657	11,280

Changes in provisions for retirement gratuities and the loyalty scheme

	Provision for retirement gratuities	Provision for the loyalty scheme
Carrying amount as at Jan 1 2020	628	6,825
Increase	-	4,720
Use	-	(894)
Carrying amount as at Dec 31 2020	628	10,652
Carrying amount as at Jan 1 2021	628	10,652
Increase	279	1,779
Use	-	(681)
Carrying amount as at Dec 31 2021	907	11,750

27. Trade and other payables

PLN thousand	Dec 31 2021	Dec 31 2020
Trade and other payables to related entities	8,145	32,231
Trade payables to other entities	10,302	9,994
Deferred income	5,296	5,296
Other liabilities	2,758	2,832
Accrued expenses	1,751	750
Taxes, customs duties, insurance and other benefits payable	918	760
	29,170	51,863

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

28. Management of risk arising from financial instruments

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

- credit risk
- liquidity risk
- market risk.

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

Key policies of risk management

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 the Company's activities. Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

28.1. Credit risk

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

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

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

Trade and other receivables

The Management Board has established a credit policy whereby each creditworthiness of each business partner is evaluated before any payment and other contract terms are offered. The evaluation includes external ratings of the trading partner, when available, and in some cases bank references. Each trading partner is assigned a transaction limit which represents the maximum transaction amount for which no approval from the Management Board is required.

The Company regularly monitors whether payments are made when due, and if any delays are identified, the following actions are taken:

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

Over 80% of the trading partners have done business with the Company for three years or more. Only in few cases losses were incurred by the Company as a result of non-payment. Trade and other receivables mainly comprise of fees receivable in respect of debt collected for business partners.

The Company's exposure to credit risk results mainly from individual characteristics of each business partner. The Management Board believes that the Company's credit risk is low as its counterparties are mainly reputable financial institutions and companies. The Company's exposure to credit risk results mainly from individual characteristics of each client. The Company's largest business partner (excluding the subsidiaries) accounts for 1.6% of the Company's revenue (2020: 2%), and the respective percentages for the Company's related entities are 67.7% and 92.8%. Receivables from the Company's largest third-party trading partner accounted for 0.9% of total gross trade receivables as at December 31st 2021 (December 31st 2020: 1.2%), and the respective percentages for the Company's related entities were: 36% and 43%. Therefore, there is no significant concentration of credit risk.

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

Investments in debt portfolios

Investments in debt portfolios include overdue debts which prior to the purchase by the Company were often subject to collection by the seller of the portfolio or by a third party acting on the seller's behalf. Therefore, credit risk related to investments in debt portfolios is relatively high, although the Company has the experience and advanced analytical tools necessary to estimate such risk.

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

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

As at each valuation date, KRUK S.A. estimates the credit risk based on past data concerning a group of portfolios as well as other portfolios with similar characteristics.

The following parameters are taken into account in the credit risk assessment:

• Debt:

- outstanding amount
- principal
- principal to debt ratio

- amount of credit granted / total amount of invoices
- type of product
- debt past due (DPD)
- contract's term
- time elapsed from contract execution
- collateral (existence, type, amount)

• Indebted person:
- credit amount repaid so far / amount of invoices repaid so far
- time elapsed from the last payment made by the indebted person
- region
- indebted person's form of incorporation
- indebted person's death or bankruptcy
- indebted person's employment

• Debt processing by the previous creditor:
- availability of the indebted person's correct contact data
- in-house collection – by the previous creditor's own resources
- outsourced collection – debt management by third parties
- court collection
- bailiff collection

Changes in credit risk assessment affect expected amounts of future cash flows which are used as a basis of valuation of investments in debt portfolios.
The Company minimises the risk by performing a valuation of each portfolio before and after it is purchased, taking into account the likelihood of recovery of invested capital and the estimated costs of the collection process. Debt portfolios are purchased at official auctions and prices offered by the Company in most of such auctions do not differ significantly from prices offered by the Company's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.

The market value of a portfolio and its maximum purchase price are determined based on a statistical and economic analysis. Initially, portfolios are divided into sub-portfolios based on debt amount and type of security. This is done to select debts which can be valued using statistical methods. Other sub-portfolios are valued on a case-by-case basis in a due diligence process as at the time of their purchase.

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

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

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

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

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

• assessment of a business partner's and indebted person's creditworthiness prior to proposing payment dates another terms of cooperation;

• regular monitoring of timely payment of debt;
• maintaining a diversified client base.

The Company analyses the risk attached to the debt portfolios it purchases using economic and statistical tools and relying on its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis.
As at the date of this report, the Company holds no single debt whose non-payment could have a material adverse effect on the Company's liquidity, but no assurance can be given that such a situation will not occur in the future.

Debt collection tools used include:
• letters
• telephone calls
• text messages
• partial debt cancellation
• intermediation in securing an alternative source of financing
• doorstep collection (at home or workplace)
• detective activities
• amicable settlements
• court collection
• enforcement against collateral

• loyalty scheme

Loans to related parties

Loans advanced to related parties are not secured, but because they are granted to entities over which the Company has control their repayment does not involve a material credit risk. The Company recognises allowances for expected credit losses, which correspond to an estimate of incurred expected credit losses on loans. Impairment losses comprise specific losses related to individually significant exposures.

Guarantees

As a rule, the Company issues financial guarantees only to its wholly-owned subsidiaries. During the reporting period, the Company did not issue any guarantees to third parties.

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 thousand	**Dec 31 2021**	**Dec 31 2020**
Investments in debt portfolios	31,787	33,329
Loans to related parties	388,195	287,191
Trade and other receivables, net of tax receivable	37,407	30,561
Cash and cash equivalents	53,698	6,595
Hedging instruments	13,803	-
	524,890	357,677

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

PLN thousand	**Dec 31 2021**	**Dec 31 2020**
Poland	411,824	266,153
Romania	68,135	82,724
Czech Republic and Slovakia	44,931	8,800
	524,890	357,677

Credit risk exposure – Investments in debt portfolios

PLN thousand	Dec 31 2021	Dec 31 2020
Portfolio type		
Unsecured retail portfolios	31,661	32,956
Secured retail portfolios	40	112
Unsecured corporate portfolios	-	-
Secured corporate portfolios	86	261
	31,787	33,329

Credit risk exposure – Cash

PLN thousand	Dec 31 2021	Dec 31 2020
Cash in accounts with banks rated below BBB – by Standard & Poor's*	-	-
Cash in accounts with banks rated BBB or higher – by Standard & Poor's*	53,698	6,595
	53,698	6,595

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

Allowance for expected credit losses

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

IFRS 9 classification	**Days past due** **Basket 1 <0** **Basket 2 <0;90>** **Basket 3 >90**	**Expected credit losses as a% of the gross carrying amount**	**Carrying amount as at Dec 31 2021 (IFRS 9)**	**Carrying amount as at Dec 31 2020 (IFRS 9)**
Trade and other receivables, net of tax receivable	Basket 1		37,407	30,561
	Basket 2		216	436
	Basket 3		-	-
			37,623	30,998
Allowance for expected credit losses	Basket 1	0%	-	-
	Basket 2	0,7%	216	436
	Basket 3	100%	-	-
			216	436
Net carrying amount	Basket 1		37,407	30,561
	Basket 2		-	-
	Basket 3		-	-
			37,407	30,561

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

PLN thousand	Dec 31 2021	Dec 31 2020
Loss allowance as at Jan 1	436	80
Allowance for expected credit losses recognised in the reporting period	23	373
Reversal of allowance for expected credit losses	(243)	(17)
Use of allowance for expected credit losses	-	-
Loss allowance as at Dec 31	216	436

Based on historical payment data, the Company recognises allowances for expected credit losses which represent its estimates of expected losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

In 2021−2020, the Company did not recognise any general impairment losses on receivables.

Breakdown of loans into quality baskets as at the end of the reporting periods is presented below.

IFRS 9 classification		Carrying amount as at Dec 31 2021 (IFRS 9)	Carrying amount as at Dec 31 2020 (IFRS 9)
Loans to related parties	Basket 1	88,073	96,080
	Basket 2	337,757	213,151
	Basket 3	-	1,655
		425,829	310,886
Allowance for expected credit losses	Basket 1	-	-
	Basket 2	37,635	22,362
	Basket 3	-	1,333
		37,635	23,695
Net carrying amount	Basket 1	88,073	96,080
	Basket 2	300,122	190,790
	Basket 3	-	322
		388,195	287,191

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

28.2. Liquidity risk

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

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

The main objective of liquidity management is to protect the Company against the loss of ability to pay its liabilities.

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

The Company's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected level of recoveries from debt portfolios.

In accordance with the liquidity management policy effective as at the date of issue of these financial statements, the following conditions must be met by the Company before new debt can be incurred:

- the debt can be repaid from the Company's own assets,
- incurring the debt will not result in exceeding the financial covenants stipulated in facility agreements and terms and conditions of bonds.

Exposure to liquidity risk

As at Dec 31 2021 *PLN thousand*	**Present value**	**Contractual/estimated cash flows**	**Less than 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Non-derivative financial assets and liabilities							
Cash and cash equivalents	53,698	53,698	53,698	-	-	-	-
Trade and other receivables, net of tax receivable	37,407	37,407	37,407	-	-	-	-
Investments in debt portfolios	31,787	86,162	14,454	10,254	16,200	27,129	18,124
Secured borrowings	(227,465)	(238,490)	(68,286)	(9,185)	(69,724)	(91,295)	-
Liabilities under debt securities (unsecured)	(1,304,759)	(1,528,742)	(427,331)	(101,969)	(114,327)	(527,527)	(357,588)
Lease liabilities	(32,986)	(32,804)	(5,831)	(7,098)	(11,420)	(8,455)	-
Trade and other payables	(21,205)	(21,205)	(21,205)	-	-	-	-
	(1,463,523)	(1,643,975)	(417,094)	(107,998)	(179,271)	(600,148)	(339,464)

As at Dec 31 2020 *PLN thousand*	**Present value**	**Contractual/estimated cash flows**	**Less than 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Non-derivative financial assets and liabilities							
Cash and cash equivalents	6,595	6,595	6,595	-	-	-	-
Trade and other receivables, net of tax receivable	30,561	30,561	30,561	-	-	-	-
Investments in debt portfolios	33,329	87,508	13,833	11,721	17,715	27,899	16,341
Secured borrowings	(117,452)	(99,196)	(573)	(582)	(1,155)	(96,886)	-
Liabilities under debt securities (unsecured)	(1,314,247)	(1,400,573)	(391,113)	(188,776)	(491,441)	(329,243)	-
Lease liabilities	(30,444)	(30,597)	(4,182)	(4,775)	(9,174)	(11,710)	(756)
Trade and other payables	(45,057)	(45,057)	(45,057)	-	-	-	-
	(1,436,714)	(1,450,758)	(389,935)	(182,412)	(484,056)	(409,940)	15,585

The above amounts do not include expenditure on or collections from future purchased debt portfolios and future operating expenses, which will be necessary to obtain proceeds from financial assets.
For information on liquidity risk of hedging instruments, see Note 23.

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

Contractual/estimated cash flows were determined based on interest rates effective as at December 31st 2020 and December 31st 2021, respectively.

The Company does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.
As at December 31st 2021, the undrawn revolving credit facility limit available to the Company was PLN 280,932 thousand (December 31st 2020: PLN 354,291 thousand). The limit is available until December 31st 2027.

28.3. Market risk

Market risk is related to changes in such market factors as exchange rates, interest rates or stock prices, which affect the Company's performance or the value of financial instruments it holds. The objective of the market risk management policy implemented at the Company is to control and maintain the Company's exposure to market risk within the assumed values of parameters, while simultaneously optimising the rate of return.

It has been concluded that effective implementation of the Company'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 Company's objectives in terms of interest rate risk,
- methods of interest rate risk monitoring;
- the Company's permissible exposure to the interest rate risk,
- procedures in case of exceeding the Company's permissible exposure to the interest rate risk,
- interest rate risk management rules of the Company,

The currency risk management policy outlines:

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

The Company uses financial instruments to hedge its interest rate risk and currency risk (Notes 3.3.5 and 23).

As at December 31st 2021, assets denominated in foreign currencies accounted for 0.6% of total assets, while liabilities denominated in foreign currencies represented 10.6% of total equity and liabilities (December 31st 2020: 0.8% and 5.4%, respectively).

Cash recoveries in foreign currencies are reinvested to purchase debt portfolios in the same currency.

Exposure to currency risk

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

	Exposure to currency risk					
'000	**Dec 31 2021**			**Dec 31 2020**		
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	-	-	-	2	-	-
Cash	741	844	397	150	642	407
Investments in debt portfolios	310	23,417	1,609	224	27,078	1,557
Borrowings, other debt securities and leases	(191,780)	-	-	(202,480)	-	-
Trade payables	(255)	-	-	-	(13)	-
Exposure to currency risk	(190,984)	24,261	2,006	(202,104)	27,707	1,964

'000	Analysis of sensitivity of exposure to currency risk to +10% increase in exchange rates					
	Dec 31 2021			Dec 31 2020		
	EUR	RON	CZK	EUR	RON	CZK
Trade receivables	-	-	-	-	-	-
Cash	74	84	40	15	64	41
Investments in debt portfolios	31	2,342	161	22	2,708	156
Borrowings, other debt securities and leases	(19,178)	-	-	(20,248)	-	-
Trade payables	(26)	-	-	-	(1)	-
Exposure to currency risk	(19,098)	2,426	201	(20,210)	2,771	196

Currency concentration risk is defined by the Company as the risk arising from significant exposure to individual financial instruments denominated in RON,CZK, EUR.

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

PLN	Average exchange rates*		End of period (spot rates)	
	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020	Dec 31 2021	Dec 31 2020
1 EUR	4.5775	4.4742	4.5994	4.6148
1 USD	3.8757	3.9045	4.0600	3.7584
1 RON	0.9293	0.9239	0.9293	0.9479
1 CZK	0.1785	0.1687	0.1850	0.1753

**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.*

As at December 31st 2021 and December 31st 2020, a 10% appreciation of the Polish złoty against EUR, RON and CZK would have resulted in an increase (decrease) of profit for the current period by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN thousand	Other comprehensive income	Profit or loss for the current period
Dec 31 2021		
EUR (10% appreciation of PLN)	-	(19,098)
RON (10% appreciation of PLN)	-	2,426
CZK (10% appreciation of PLN)	-	201
Dec 31 2020		
EUR (10% appreciation of PLN)	-	(20,210)
RON (10% appreciation of PLN)	-	2,771
CZK (10% appreciation of PLN)	-	196

Exposure to interest rate risk

The structure of interest-bearing financial instruments as at the reporting date is presented below:

PLN thousand	Carrying amount	
	Dec 31 2021	**Dec 31 2020**
Fixed-rate financial instruments[1]		
Financial assets	122,892	70,486
Financial liabilities	(386,477)	(257,342)
	(263,585)	(186,857)
Hedge effect (nominal amount)	(530,000)	(530,000)
	(793,585)	(716,857)
Variable-rate financial instruments[2]		
Financial assets	401,998	287,191
Financial liabilities	(1,199,938)	(1,279,480)
	(797,940)	(992,288)
Hedge effect (nominal amount)	530,000	530,000
	(267,940)	(462,288)

[1] Fixed-rate financial assets comprise investments in debt portfolios and trade and other receivables, less tax receivables and cash and cash equivalents. Fixed-rate financial liabilities comprise trade and other payables, as well as liabilities under fixed-rate debt securities.

[2] Variable-rate financial assets comprise loans advanced to related parties. Variable-rate financial liabilities comprise secured borrowings, liabilities under variable-rate debt securities and lease liabilities.

Derivatives and hedging instruments are presented as variable interest rate financial instruments.

Interest rate concentration risk is defined by the Company as the risk arising from significant exposure to individual financial instruments.

Sensitivity analysis of fair value of fixed-rate financial instruments

The Company does not hold any fixed-interest financial assets or liabilities measured at fair value through profit or loss, nor does it use derivative transactions (IRSs) as fair value hedges. 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

The Company purchases derivative instruments in order to hedge interest rate risk.

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

	Profit or loss for the current period	
PLN thousand	increase by 100 bps	decrease by 100 bps
Dec 31 2021		
Variable rate financial assets	4,020	(4,020)
Variable rate financial liabilities	(11,999)	11,999
Dec 31 2020		
Variable rate financial assets	2,872	(2,872)
Variable rate financial liabilities	(12,795)	12,795

Fair values

Comparison of fair values and carrying amounts

The table below presents a comparison between fair values of financial assets and liabilities and values presented in the statement of financial position.

	Dec 31 2021		Dec 31 2020	
PLN thousand	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value				
Derivatives	-	-	(11,236)	(11,236)
Hedging instruments	13,803	13,803	(18,386)	(18,386)
	13,803	13,803	(29,622)	(29,622)
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	31,787	30,285	33,329	32,112
Loans to related parties	388,195	388,195	287,191	287,191
Secured borrowings	(227,465)	(225,158)	(117,452)	(117,452)
Liabilities under debt securities (unsecured)	(1,304,759)	(1,318,243)	(1,314,247)	(1,319,748)
	(1,112,241)	(1,124,920)	(1,111,179)	(1,117,897)

For information on fair value measurement, see Note 3.3.1.

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

Interest rates used for fair value estimation

	Dec 31 2021	Dec 31 2020
Investments in debt portfolios	0.32%–55.14%	5.77%–273.80%
Secured borrowings	4.54%–5.04%	1.19%–2.19%
Liabilities under debt securities (unsecured)	3.59%–5.94%	3.21%–4.80%
Loans to related parties	2.00%–8.94%	1.51%–6.81%

Hierarchy of financial instruments at fair value

The table below presents the fair value of financial instruments recognised in the statement of financial position at fair value and at amortised cost. Depending on the level of valuation, the following inputs were used in the valuation models.

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

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

PLN thousand		**Level 2**
	Carrying amount	**Fair value**
As at Dec 31 2021		
Derivatives	-	-
Hedging instruments	13,803	13,803
Secured borrowings	(227,465)	(225,158)
Liabilities under debt securities (unsecured)	(1,304,759)	(1,318,243)
As at Dec 31 2020		
Derivatives	(11,236)	(11,236)
Hedging instruments	(18,386)	(18,386)
Secured borrowings	(117,452)	(117,452)
Liabilities under debt securities (unsecured)	(1,314,247)	(1,319,748)

The fair value of derivative and hedging instruments 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 Company uses a 3M WIBOR forecast provided by an external company.

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

PLN thousand		**Level 3**
	Carrying amount	**Fair value**
As at Dec 31 2021		
Investments in debt portfolios	31,787	30,285
Loans to related parties	388,195	388,195
As at Dec 31 2020		
Investments in debt portfolios	33,329	32,112
Loans to related parties	287,191	287,191

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

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

For bank borrowings, notes in issue, lease liabilities and trade payables, the Company determines fair value using Level 2 inputs.
The Company does not identify Level 1 assets.

29. Related-party transactions

Remuneration of the Company's directors – Management Board

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

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Base pay/ managerial contract (gross)	5,946	6,231
Additional benefits	68	109
Share based payments[1]	18,576	4,382
	24,589	10,721

[1] The management stock option plans are described in Note 20.

The Management Board's remuneration for 2020 also includes severance payments.

Remuneration of the Company's directors – Supervisory Board

Remuneration of members of the Supervisory Board was as follows:

PLN thousand	**Jan 1–Dec 31 2021**	**Jan 1–Dec 31 2020**
Base pay/ managerial contract (gross)	932	873
Additional benefits	15	15
	947	888

Other transactions with the Company's directors

As at December 31st 2021, members of the Management Board and persons closely related to them jointly held 10.05% of the total voting rights at the Company's General Meeting (December 31st 2020: 10.32%)

In 2021 and 2020, there were no transactions with close family members of the Company's key management personnel.

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

Other related-party transactions

The Company has receivables from related entities for the provision of debt collection services and support services.
The Company has liabilities towards related entities under: non-transferred recoveries collected as part of debt collection services provided by the Company and liabilities under debt collection services provided to the Company by related entities.
Receivables, liabilities, loans advanced and received are unsecured and will be settled by offsetting mutual claims. In the financial year under analysis, the Company recognised an allowance for expected credit losses on loans advanced of PLN 37,635 thousand (2020: PLN 23,695 thousand). For information on expected credit losses on loans advanced, see Note 28.1.
Transactions with related parties were made on an arm's-length basis.

Transactions with subsidiaries as at and for the period ended December 31st 2021 and December 31st 2020

Balance of receivables and loans to subsidiaries as at December 31st 2021 and December 31st 2020

	Dec 31 2021							Dec 31 2020						
PLN thousand	**Liabilities**	**Receivables**	**Loans**	**Interest accrued on loans**	**Allowance for expected credit losses**	**Loans received**	**Interest accrued on loans received**	**Liabilities**	**Receivables**	**Loans**	**Interest accrued on loans**	**Allowance for expected credit losses**	**Loans received**	**Interest accrued on loans received**
SeCapital S.à. r.l	3,456	23	-	-	-	-	-	7,838	2,080	-	-	-	-	-
ERIF Business Solutions Sp. z o.o.	-	17	-	8	-	-	-	-	59	1,505	-	(1,333)	-	-
Novum Finance Sp. z o.o.	141	545	33,742	119	(96)	-	-	-	239	31,242	-	-	-	-
SeCapital Polska Sp. z o.o.	-	-	-	-	-	-	-	-	-	150	-	-	-	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	71	2,496	-	-	-	-	-	2,976	1,560	-	-	-	-	-
KRUK Romania S.r.l.	459	1,230	39,762	300	-	-	-	520	751	52,494	535	-	-	-
ERIF BIG S.A.	24	177	-	-	-	7,600	-	24	230	-	-	-	7,100	-
NSFIZ PROKURA	2,334	10,907	-	-	-	-	-	5,552	7,511	-	-	-	-	-
KRUK Česká a Slovenská republika s.r.o.	27	745	43,013	-	-	-	-	65	240	7,020	-	-	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	10,464	-	-	-	-	-	-	9,980	-	-	-	-	-
InvestCapital Ltd.	-	316	-	-	-	-	-	531	245	-	-	-	-	-
KRUK Deutschland GmbH	-	14	-	-	-	-	-	-	21	-	-	-	-	-
Rocapital IFN S.A.	-	1	4,647	44	-	-	-	-	-	4,740	49	-	-	-
KRUK Italia S.r.l	-	228	-	-	-	-	-	-	152	-	-	-	14,209	1
ItaCapital S.r.l	-	1	-	-	-	-	-	-	5	-	-	-	-	-
KRUK Espana S.L.	-	1,292	-	-	-	-	-	-	102	-	-	-	-	-
Presco Investments S.a.r.l.	1,604	2,142	-	-	-	-	-	14,714	1,408	-	-	-	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	26	255	-	-	-	-	-	10	256	-	-	-	-	-
ProsperoCapital S.à r.l.	-	23	-	-	-	-	-	-	13	-	-	-	-	-
Corbul Capital S.r.l	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elleffe Capital S.r.l.	-	1	-	-	-	-	-	-	5	-	-	-	-	-
NSFIZ BISON	-	1,383	-	-	-	-	-	-	18	-	-	-	-	-
AgeCredit S.r.l.	-	19	-	-	-	-	-	-	20	-	-	-	-	-
Wonga.pl Sp. z o.o.	-	2	303,895	-	(37,527)	-	-	-	7	213,151	-	(22,362)	-	-
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Kruk Investimenti s.r.l.	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Zielony Areał sp. z o.o.	-	2	300	-	- (11)	-	-	-	-	-	-	-	-	-
	8,145	32,284	425,358	472	(37,635)	7,600	-	32,231	24,902	310,302	584	(23,695)	21,309	1

Income from intra-group transactions in the periods ended December 31st 2021 and December 31st 2020

	Jan 1–Dec 31 2021			Jan 1–Dec 31 2020		
PLN thousand	**Revenue from sale of materials and services**	**Revenue from credit management services**	**Interest**	**Revenue from sale of materials and services**	**Revenue from credit management services**	**Interest**
SeCapital S.à. r.l	12	62	-	14	72	-
ERIF Business Solutions Sp. z o.o.	106	-	33	116	-	43
Novum Finance Sp. z o.o.	1,582	1,138	1,725	1,182	1,094	2,080
SeCapital Polska Sp. z o.o.	2	-	-	11	-	4
Kancelaria Prawna RAVEN P.Krupa Sp. k.	7,762	-	-	6,127	-	-
KRUK Romania S.r.l.	3,077	-	1,105	1,681	-	2,529
ERIF BIG S.A.	776	-	-	737	-	-
NSFIZ PROKURA	4,596	-	-	3,634	-	-
KRUK Česká a Slovenská republika s.r.o.	730	-	414	889	-	332
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	243	99,220	-	150	82,788	-
InvestCapital Ltd.	15,398	-	-	5,961	-	-
KRUK Deutschland GmbH	2	-	-	-	-	-
Rocapital IFN S.A.	11	-	175	-	-	211
KRUK Italia S.r.l	1,104	-	-	949	-	-
ItaCapital S.r.l	-	-	-	-	-	-
KRUK Espana S.L.	1,997	-	-	1,275	-	-
Presco Investments S.a.r.l.	12	1,740	-	12	1,702	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-	-	-	-
ProsperoCapital S.à r.l.	12	-	-	12	-	-
Corbul Capital S.r.l	-	-	-	-	-	-
Elleffe Capital S.r.l.	-	-	-	-	-	-
NSFIZ BISON	-	-	-	-	-	-
AgeCredit S.r.l.	-	-	-	-	-	-
Wonga.pl Sp. z o.o.	6	5	16,287	6	68	15,299
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	-	-	-	-	-	-
Kruk Investimenti s.r.l.	-	-	-	-	-	-
Zielony Areał sp. z o.o.	4	-	2	-	-	-
	37,431	102,165	19,741	22,756	85,725	20,497

Expenses on intra-group transactions in the periods ended December 31st 2021 and December 31st 2020

	Jan 1–Dec 31 2021		Jan 1–Dec 31 2020	
PLN thousand	**Purchase of services**	**Interest**	**Purchase of services**	**Interest**
Kancelaria Prawna RAVEN P.Krupa Sp. k.	1,310	-	1,477	-
KRUK Romania S.r.l.	6,412	-	4,839	-
ERIF BIG S.A.	206	165	238	212
SeCapital S.à. r.l	-	48	-	113
KRUK Česká a Slovenská republika s.r.o.	445	-	376	-
ERIF Business Solutions Sp. z o.o.	2	-	1	-
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	24	-	-	-
KRUK Italia S.r.l	-	102	-	30
KRUK Deutschland GmbH	-	-		40
	8,400	316	6,931	395

30. Share-based payments

PLN thousand

Period ending	Value of benefits granted
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Dec 31 2017	10,147
Dec 31 2018	8,118
Dec 31 2019	9,658
Dec 31 2020	(1,156)
Dec 31 2021	18,576
Total	82,000

The management stock option plans are described in Note 20.

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31. Other notes

Notes to the separate statement of cash flows

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

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Change in trade and other receivables presented in the separate statement of financial position	**(6,353)**	**52,294**
Offsett of receivables against liabilities	13,735	2,077
Change in trade and other receivables presented in the separate statement of cash flows	**7,382**	**54,372**

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Net finance costs presented in the separate statement of profit or loss	**37,992**	**79,219**
Realized exchange differences on write-offs of investments in subsidiaries	(1,902)	(557)
Net finance costs presented in the separate statement of cash flows	**36,090**	**78,662**

	Jan 1–Dec 31 2021	Jan 1–Dec 31 2020
Change in trade and other payables presented in the separate statement of financial position	**(22,693)**	**(15,193)**
Offset against accounts receivable and dividends declared but not paid	32,815	-
Change in trade and other payables presented in the separate statement of cash flows	**10,121**	**(15,193)**

The Company offsets its dividends receivable from subsidiaries against amounts owed to those companies for amounts collected.

32. Auditor's fees

PLN '000 net	**Dec 31 2021**	**Dec 31 2020**
Audit of financial statements	1,867	1,832
Other assurance services, including review of financial statements	270	352
	2,137	2,184

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33. Contingent liabilities and security created over the Company's assets

Security created over KRUK S.A.'s assets as at December 31st 2020 is presented below:

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 210,000 thousand	Not later than July 1st 2026.	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	Until the derivative transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 162,398 thousand The amount relates to InvestCapital LTD and Kruk S.A.	No later than October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 291 thousand and PLN 197 thousand	No later than December 30th 2021	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240,000 thousand	No later than December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	EUR 390,000 thousand	Until all obligations under the credit facility agreement are satisfied.	The Borrower's failure to pay amounts owed under the credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019.
Surety for InvestCapital LTD's liabilities under financial market transactions in pursuant to the master agreement between InvestCapital LTD and DNB Bank Polska S.A.	DNB Bank Polska S.A.	EUR 15,300 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied.	InvestCapital LTD's failure to satisfy its obligations under financial market transactions executed pursuant to the master agreement of February 28th 2019.

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Security created over KRUK S.A.'s assets as at December 31st 2021 is presented below:

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for PROKURA NS FIZ's liabilities under the revolving credit facility of July 2nd 2015, as amended, between PROKURA NS FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 126,000 thousand	No later than July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the revolving credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	Until the derivative transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 54,900 thousand The amount relates to InvestCapital LTD and Kruk S.A.	No later than July 31st 2027	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 292 thousand and PLN 204 thousand	No later than December 30th 2022	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for PROKURA NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility agreement of December 20th 2018, as amended, between PROKURA NS FIZ, KRUK S.A. and ING Bank Śląski S.A.	ING Bank Śląski S.A.	PLN 300,000 thousand	No later than December 20th 2029	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

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Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and PKO BP S.A. and Bank Handlowy w Warszawie S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	EUR 447,000 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of September 21st 2021, as amended, between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 42,408 thousand	No later than September 20th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of December 14th 2021, as amended, between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 85,800 thousand	No later than December 13th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement

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

34. Events subsequent to the reporting date

- On January 19th 2022, the Management Board of KRUK S.A. passed a resolution to issue AM2 Series bonds and define the final terms and conditions of the bonds. On February 8th 2022, the Management Board of KRUK S.A. passed a resolution to allot Series AM2 ordinary bearer bonds issued under the Base Prospectus approved by the Polish Financial Supervision Authority on September 3rd 2021. Pursuant to the resolution, the issue of the bonds was successful and 500,000 bonds with a nominal value equal to the issue price of PLN 100 and a total issue value of PLN 50,000 thousand were allotted.

  On January 14th 2022, the Management Board of KRUK S.A. passed a resolution to issue AL2 Series bonds and define the final terms and conditions of the bonds. On February 2nd 2022, the Management Board of KRUK S.A. was notified of payment of the full amount of proceeds from the issue of unsecured Series AL2 bearer bonds. Based on the information, the Management Board declared the issue of the bonds successful and made the final allotment of 350,000 bonds with a nominal value equal to the issue price of PLN 1000 and a total issue value of PLN 350,000 thousand.

- Effective January 31st 2022, KRUK S.A. became the holder of 99% of shares in KRUK Tech s.r.l. of Bucharest. The principal business activity of the company is the provision of IT services and software development.

- On February 1st 2022, KRUK S.A. entered into a PLN 40,000 thousand credit facility agreement with Bank Pekao S.A. with the final repayment date falling on January 31st 2028.

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

  Recoveries from purchased debt portfolios

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

  Investments in debt portfolios

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

Access to debt financing

The Company expects to face temporary difficulties in placing bonds on the Polish market. The Company does not consider this to be a serious impediment given the PLN 400,000 thousand worth of bonds issued in the first two months of 2022 and the plan to increase the amount of credit available under bank loans.

Liquidity management

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

1) Meeting the required financial covenants – currently the covenants are at safe levels, far lower than the thresholds set in relevant credit agreements and bond terms.
Furthermore, when calculating most of the financial ratios the effect of exchange differences is neutralised.

The Company anticipates potential minor short-term fluctuations in the net debt/cash EBITDA ratio as different EUR/PLN exchange rates are used to calculate the numerator (net debt in PLN is calculated using the mid exchange rate for a given day) and the denominator (EBITDA in PLN is calculated using the average exchange rate for the last 12 months), but the impact of the fluctuations should not be significant.

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

Digital security

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

1) Business relationship has been established with CERT.PL, which specialises in computer security, and CERT recommendations issued in connection with the conflict have been implemented.

2) Special level of protection has been provided for backup copies of our critical systems.

3) Steps have been taken to establish a permanent relationship with an external Security Operations Centre.

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

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

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

Piotr Krupa
President of the Management Board

Urszula Okarma
Member of the Management Board

Piotr Kowalewski
Member of the Management Board

Adam Łodygowski
Member of the Management Board

Michał Zasępa
Member of the Management Board

Sylwia Bomba

Person responsible for keeping the books

Hanna Stempień

Person preparing the financial statements

Wrocław, March 15th 2022.