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KRUK S.A.

Separate financial statements

for the year ended December 31st 2022

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

KRUK S.A.

December 31st 2022

Separate financial statements

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Separate statement of profit or loss

PLN thousand

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income on debt portfolios measured at amortised cost	*5*	17,502	17,273
Other income/(expenses) from purchased debt portfolios	*5*	566	(467)
Revenue from other services	*5*	164,102	147,059
Other income	*5*	2,561	2,127
Gain/(loss) on expected credit losses	*5*	18,700	16,630
Operating income including gain/(loss) on expected credit losses and other income/expenses from purchased debt portfolios		203,431	182,621
Employee benefits expense	*8*	(200,625)	(166,225)
Depreciation and amortisation	*12, 13*	(21,250)	(16,907)
Services	*6*	(51,065)	(40,875)
Other expenses	*7*	(32,293)	(27,470)
		(305,233)	(251,477)
Operating profit/(loss)		(101,802)	(68,856)
Finance income	*9*	46,476	19,746
Finance costs	*9*	(105,971)	(57,739)
including interest expense relating to lease liabilities		*(1,645)*	*(814)*
Net finance costs		(59,495)	(37,992)
Share of profit/(loss) of equity-accounted investees	*14*	1,002,707	864,412
Profit/(loss) before tax		841,410	757,564
Income tax	*10*	(36,428)	(62,806)
Net profit/(loss) for period		804,982	694,758
Earnings/(loss) per share			
Basic (PLN)	*21*	42.07	36.63
Diluted (PLN)	*21*	40.71	35.80

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.

Statement of comprehensive income

PLN thousand	***Note***	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Net profit/(loss) for period		804,982	694,758
Other comprehensive income, gross			
Items that may be reclassified subsequently to profit or loss			
Instruments hedging cash flows and net investment in a foreign operation	*23*	2,280	32,668
Exchange differences on translating foreign operations	*14*	24,740	(5,652)
Share of other comprehensive income of equity-accounted investees	*14*	15,756	-
		42,776	27,016
Items that will not be reclassified to profit or loss			
Share of other comprehensive income of equity-accounted investees	*14*	4,155	-
		4,155	-
Other comprehensive income for period, gross		46,931	27,016
Income tax on instruments hedging cash flows and net investment in a foreign operation	*23*	(3,294)	-
Other comprehensive income for period, net		43,637	27,016
Total comprehensive income for period		848,619	721,774

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

Statement of financial position

PLN thousand	Note	Dec 31 2022	Dec 31 2021
Assets			
Cash and cash equivalents	19	22,008	53,698
Hedging instruments	23	30,335	13,803
Trade receivables from related entities	18	27,523	27,331
Trade receivables from other entities	18	3,339	2,870
Other receivables	18	15,715	7,255
Income tax receivable		9,292	-
Inventories	17	15,174	18,970
Investments	15	464,743	419,983
Equity-accounted investments in subsidiaries	14	4,735,762	3,814,418
Property, plant and equipment	12	39,774	39,882
Intangible assets	13	30,791	9,502
Other assets		8,962	6,367
Total assets		5,403,418	4,414,079
Equity and liabilities			
Liabilities			
Trade and other payables	26	30,645	29,170
Hedging instruments		9,824	-
Employee benefit obligations	24	28,974	24,153
Income tax payable		-	14,995
Borrowings, other debt securities and leases	22	1,865,886	1,565,210
Provisions	25	12,653	12,657
Deferred tax liability	16	201,419	167,077
Total liabilities		2,149,401	1,813,262
Equity			
Share capital	20	19,319	19,013
Share premium		358,506	333,264
Hedge reserve	23	16,871	17,885
Translation reserve		100,448	75,708
Share of other comprehensive income of equity-accounted investees	14	19,911	-
Other capital reserves		149,896	122,202
Retained earnings		2,589,066	2,032,745
Total equity		3,254,017	2,600,817
Equity and liabilities		5,403,418	4,414,079

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

PLN thousand	*Note*	Share capital	Share premium	Hedge reserve	Translation reserve	Share of other comprehensive income of equity-accounted investees	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2022		19,013	333,264	17,885	75,708	-	122,202	2,032,745	2,600,817
Comprehensive income for period									
Net profit/(loss) for period		-	-	-	-	-	-	804,982	804,982
Other comprehensive income									
- Exchange differences on translating foreign operations	*14*	-	-	-	24,740	-	-	-	24,740
- Share of other comprehensive income of equity-accounted investees	*14*	-	-	-	-	19,911	-	-	19,911
- Measurement of hedging instruments	*23*	-	-	(1,014)	-	-	-	-	(1,014)
Total other comprehensive income		-	-	(1,014)	24,740	19,911	-	-	43,637
Total comprehensive income for period		-	-	(1,014)	24,740	19,911	-	804,982	848,619
Contributions from and distributions to owners									
- Payment of dividends	*21*	-	-	-	-	-	-	(248,661)	(248,661)
- Share-based payments	*29*	-	-	-	-	-	27,694	-	27,694
- Issue of shares	*20*	306	25,242	-	-	-	-	-	25,548
Total contributions from and distributions to owners		306	25,242	-	-	-	27,694	(248,661)	(195,419)
Total equity as at Dec 31 2022		19,319	358,506	16,871	100,448	19,911	149,896	2,589,066	3,254,017

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.

PLN thousand	*Note*	Share capital	Share premium	Hedge reserve	Translation reserve	Share of other comprehensive income of equity-accounted investees	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 period									
Net profit/(loss) for period		-	-	-	-	-	-	694,758	694,758
Other comprehensive income									
- Exchange differences on translating foreign operations	*14*	-		-	(5,652)	-	-	-	(5,652)
- Measurement of hedging instruments	*23*	-	-	32,668	-	-	-	-	32,668
Total other comprehensive income		-	-	32,668	(5,652)	-	-	-	27,016
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	*29*	-	-	-	-	-	18,576	-	18,576
- Issue of shares	*20*	273	22,834	-	-	-	-	-	23,107
- Redemption 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

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

PLN thousand	*Note*	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cash flows from operating activities			
Net profit/(loss) for period		804,982	694,758
Adjustments			
Depreciation of property, plant and equipment	12	14,297	12,205
Amortisation of intangible assets	13	6,953	4,702
Net finance costs	9	59,464	36,090
Share of (profit)/loss of equity-accounted investees	14	(1,002,707)	(864,412)
(Gain)/loss on sale of property, plant and equipment		(1,550)	(46)
Equity-settled share-based payments	29	27,694	18,576
Interest income	5	(17,502)	(17,273)
Income tax		36,428	62,806
Change in debt portfolios purchased	15	596	1,542
Change in inventories	17	3,796	9,785
Change in trade and other receivables	18	48,215	7,382
Change in other assets		(2,595)	(411)
Change in trade and other payables, excluding financial liabilities	26	21,188	10,121
Change in employee benefit obligations	24	4,821	2,689
Change in provisions	25	(4)	1,377
Interest received	5	17,502	17,273
Income tax paid		(29,667)	(19,321)
Net cash from operating activities		(8,089)	(22,158)
Cash flows from investing activities			
Interest received		417	5
Loans		(71,755)	(145,596)
Sale of intangible assets and property, plant and equipment		503	1,989
Dividends received		19,487	38,917
Proceeds from investments in subsidiaries		119,875	471,068
Purchase of intangible assets and property, plant and equipment		(15,897)	(7,083)
Acquisition of shares in subsidiaries		(108,115)	(196,175)
Repayments		84,104	46,270
Net cash from investing activities		28,619	209,395
Cash flows from financing activities			
Proceeds from issue of debt securities		545,000	535,000
Proceeds from issue of shares		25,548	22,836
Increase in borrowings		1,072,148	994,534
Repayment of borrowings		(851,384)	(865,171)
Payments under finance lease contracts (principal)		(12,666)	(7,888)
Dividends paid	21	(248,661)	(206,140)
Redemption of debt securities		(467,926)	(540,000)
Interest paid		(114,279)	(73,304)
Net cash from financing activities		(52,220)	(140,134)
Total net cash flows		(31,690)	47,103
Cash and cash equivalents at beginning of period		53,698	6,595
Cash and cash equivalents at end of period	19	22,008	53,698
- including restricted cash[1]		5,691	38,931
- effect of exchange rate fluctuations on cash held		(527)	(1,139)

[1] *Proceeds from the issue of Series AN2 bonds, of PLN 5,691 thousand, deposited in a technical account held with the broker, credited in the Company's bank account after the reporting date, on January 10th 2023. Proceeds from the issue of Series AM1 bonds, of PLN 38,931 thousand, deposited in a technical account held with the broker, 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

prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

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. The consolidated financial statements were approved on the same day as these separate financial statements. KRUK S.A. has no parent or shareholder that has the ability to influence the Group's financial and operating policies through control, joint control, or the exercise of significant influence.

As at December 31st 2022 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 2022 and as at the date of authorisation of these financial statements, the composition of the Company's Supervisory Board was as follows:

Piotr Stępniak	Chairman of the Supervisory Board
Krzysztof Kawalec	Deputy Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Izabela Felczak-Poturnicka	Member of the Supervisory Board
Ewa Radkowska-Świętoń	Member of the Supervisory Board
Beata Stelmach	Member of the Supervisory Board
Piotr Szczepiórkowski	Member of the Supervisory Board

As at December 31st 2021, 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, the composition of the 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 accounting

2.1. Statement of compliance

These separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on March 8th 2023.

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

These financial statements should be read in conjunction with the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as at and for the year ended December 31st 2022. The separate and consolidated financial statements are available at: https://pl.kruk.eu/relacje-inwestorskie/raporty/raporty-okresowe .

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 light of the current economic and political climate.

2.2. Basis of accounting

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

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

- measurement with the equity method – for investments in subsidiaries;
- at amortised cost calculated using the effective interest rate method
  - including impairment losses – for credit-impaired assets (investments in debt portfolios),
  - for 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 2022 *(PLN thousand)*	**Dec 31 2021 *(PLN thousand)***		
Equity-accounted investments in subsidiaries	4,735,762	3,814,418	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.
Investments in debt portfolios	31,191	31,787	3.3.1. 15. 27.1. 27.2. 27.3.	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 from a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. KRUK S.A. prepares projections of recoveries 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. Initial projections of expected cash flows that take into account the initial value (purchase price) are the basis for calculating the effective interest rate, equal to the internal rate of return including an element that reflects credit risk, which is used for discounting estimated cash flows, and which, as a rule, remains unchanged throughout the life of a portfolio.

Item	**Amount subject to judgement**		**Note**	**Assumptions and estimate calculation**
	Dec 31 2022 ***(PLN thousand)***	**Dec 31 2021** ***(PLN thousand)***		
Deferred tax liability	(201,419)	(167,077)	3.23. 16.	The Company exercises control over the timing of temporary differences regarding subsidiaries, and thus recognizes deferred tax liabilities. These liabilities are based on estimates of future income tax payments, which are derived from three-year plans. The Company assesses the recoverability of the deferred tax asset based on its approved projection of profits for the following years. The amount of deferred tax liabilities is affected by changes in expected future cash flows from investment companies to KRUK S.A. in the foreseeable future. The level of the cash flows depends on such factors as: • KRUK S.A.'s liquidity needs and the amount of raised and projected new debt financing available to KRUK S.A., • raised and projected new debt financing available to the investment companies, • the planned expenditure on debt portfolios – its amount determines the projected liquidity position of the investment companies, • planned recoveries from purchased debt portfolios at the investment companies. Therefore, the amount of deferred tax liability for *expected future cash flows from subsidiaries* may be subject to material changes in individual reporting periods.

prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

Investments in subsidiaries equity-accounted	-	61,474	14.	On August 31st 2022, the Company, through its subsidiary ProsperoCapital, a party to a joint arrangement, redeemed the entire 33% interest in the joint investment in the acquired debt portfolio held by an unrelated party. As a result, KRUK S.A., as of August 31st 2022, through its subsidiary InvestCapital Ltd, holds the right to 100% of ProsperoCapital's assets and liabilities.

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 2022.

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 were no significant changes in accounting policies in 2022.

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

- Amendments to IFRS 3 *Business Combinations:* updated *Reference to the Conceptual Framework*;
- Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use*;
- amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets:* clarifications concerning costs which the Company considers when assessing whether a contract will result in a loss.
- *Annual Improvements to IFRSs 2018−2020 Cycle* – amendments to: IFRS 1 *First-time Adoption of IFRSs*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and Illustrative Examples accompanying IFRS 16 *Leases*. The amendments explain and clarify the guidance on recognition and measurement provided in the standards.

3.2. 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 2022 and December 31st 2021, 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).

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.
No financial assets were reclassified in 2022 and 2021.

The following is considered a change in the business model:

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

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

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

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

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:

- if the Company has not retained the control, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained upon the transfer;
- if the Company has retained the control, it continues to recognise the asset to the extent to which it maintains its continuing involvement in that asset.

Financial assets measured at amortised cost

Investments in debt portfolios

Investments in debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the 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 classified as purchased or originated credit-impaired financial assets (POCI). Investments in debt portfolios are measured at amortised cost, using the credit risk-adjusted effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred.

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 of the effective discount rate is possible if the purchase price is reduced as a result of returning part of receivables held in a given debt portfolio to the seller due to legal defects.

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

The estimated cash flows are primarily based on:

- expected recovery rates from the collection tools used,

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

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

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.

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 to related parties</u>

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

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.

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.

Financial assets at fair value through profit or loss

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

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

b) it is designated as such upon initial recognition (fair value through profit or loss option),

c) it does not meet the SPPI test as the loan contractual flows include elements other than payment of principal, interest, and time value of money.

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, using 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 a debtor to make certain payments due to a creditor. A debt is incurred as a result of delay in the performance of an obligation and may have the cash or in-kind form.

3.3.3. 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 measures financial liabilities at amortised cost.

Financial liabilities are recognised as at the date of the transaction in which the Company becomes aparty 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 (Note 3.4.4).

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. 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.

The Company recognises hedges of a net investment in a foreign operation, including the hedge of a monetary item forming part of the net investment, similarly to cash flow hedges:

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

The 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 a certain 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 under services in the consolidated 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.

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 property foreclosed 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 value of recoveries projected as at the acquisition date. Subsequent to initial recognition, it is measured at the lower of the value of the planned recoveries and net realisable value.
Property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the sale proceeds is recognised in the statement of profit or loss for the period under income.

3.6. 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. Equity-accounted 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 redeemed 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

At the end of each reporting period, financial assets other than measured at fair value through profit and loss are tested for impairment based on objective criteria.

For information on the recognition of impairment losses, see Notes 3.3.1 and 3.3.2.

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount and the present value of projected cash flows discounted at the original effective interest rate. Any losses are recognised in profit or loss for the period and reduce the present value of financial assets; the 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.

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.

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 employee benefits expense. The value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based payments plan, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the value of an individual right may only increase.

Valuation of the plan has been performed using the Black-Scholes model. The selected model takes into account all the 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 on a continuous basis in monthly and quarterly accounts, depending on the structure of the contract.

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, 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, advisory services, 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 loans to related entities (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.

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 2022 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 2023:

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
IFRS 17 *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

Standards and interpretations endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
Amendments to IAS 12 – Deferred Tax related to 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 effect on its separate financial statements.	January 1st 2023
IFRS 17 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach). The purpose of the amendments is to: • reduce costs by simplifying some of the standard requirements; • facilitate clarification of financial results; and • facilitate transition to the new standard by deferring the effective date of the standard until 2023 and	The amendments have no effect on the separate financial statements.	January 1st 2023

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
	introducing additional expedients to facilitate the first implementation of IFRS 17.		
Amendment to IAS 8 *Definition of Accounting Estimates*	In the amendment to IAS 8 *Definition of Accounting Estimates* the definition of change in accounting estimates was replaced by the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting principles and accounting estimates are related and how a change in valuation technique constitutes a change in accounting estimate. The introduction of the definition of accounting estimates and other amendments to IAS 8 were intended to help entities distinguish changes in accounting policies from changes in accounting estimates.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2023
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	The Company is examining the impact effect of the amendments on its separate financial statements.	January 1st 2023

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
	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.		

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
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 IFRS 16 *Leases: Lease Liability in a Sale and Leaseback*	The amendments concern the measurement of lease liabilities in sale and leaseback transactions.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2024

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 services: fee-based collection of debt on client's behalf;
- other products: financial intermediation, guarantees, other administrative and IT support services.

The performance of each reportable segment is discussed below. The Company measures the performance of each reportable segment using key performance metrics such as gross profit and EBITDA. These metrics are disclosed in our internal management reports, which are reviewed by the President of the Management Board. Gross profit and EBITDA are considered by the management to be the most appropriate metrics for assessing the performance of each segment in comparison to 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.

Separate financial statements for the year ended December 31st 2022 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

Reportable segments

For the reporting period January 1st 2022 – December 31st 2022

	Poland	Romania	Italy	Spain	Other foreign markets	Head Office	Unallocated income/(expenses)	TOTAL
Revenue	**159,426**	**31,893**	**3,222**	**3,573**	**2,756**	-	**2,561**	**203,431**
Purchased debt portfolios	7,862	27,969	-	-	937	-	-	**36,768**
Credit management services	113,061	-	-	-	-	-	-	**113,061**
Other products	38,503	3,924	3,222	3,573	1,819	-		**51,041**
Other income	-	-	-	-	-	-	2,561	**2,561**
Direct and indirect costs	**(111 170)**	**(7 855)**	**-**	**-**	**(513)**	**-**	**(4 678)**	**(124,216)**
Purchased debt portfolios	(5 460)	(6 611)	-	-	(414)	-	-	**(12,485)**
Credit management services	(102 750)	-	-	-	-	-	-	**(102,750)**
Other products	(2 960)	(1 244)	-	-	(99)	-	-	**(4,303)**
Unallocated expenses	-	-	-	-	-	-	(4 678)	**(4,678)**
Gross profit[1]	**48 256**	**24 038**	**3 222**	**3 573**	**2 243**	**-**	**(2 117)**	**79,215**
Purchased debt portfolios	2 402	21 358	-	-	523	-	-	**24,283**
Credit management services	10 311	-	-	-	-	-	-	**10,311**
Other products	35 543	2 680	3 222	3 573	1 720	-	-	**46,738**
Unallocated expenses	-	-	-	-	-	-	(2 117)	**(2,117)**
Administrative expenses	(52 115)	(3 822)	(3 735)	(3 808)	(2 100)	(94 187)	-	**(159,767)**
EBITDA[2]	**(3 859)**	**20 216**	**(513)**	**(235)**	**143**	**(94 187)**	**(2 117)**	**(80,552)**
Depreciation and amortisation	-	-	-	-	-	-	-	**(21,250)**
Finance income/costs	-	-	-	-	-	-	-	**(59,495)**
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	-	**1,002,707**
Profit before tax	-	-	-	-	-	-	-	**841,410**
Income tax	-	-	-	-	-	-	-	**(36,428)**
Net profit	-	-	-	-	-	-	-	**804,982**
Carrying amount of debt portfolios	**5,988**	**24,012**	-	-	**1,191**	-	-	**31,191**
Cash recoveries	**7,332**	**27,339**	-	-	**1,665**	-	-	**36,336**

Separate financial statements for the year ended December 31st 2022 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

For the reporting period January 1st 2021 – December 31st2021

	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	**(103 977)**	**(9 193)**	**-**	**-**	**(543)**	**-**	**(4 202)**	**(117,915)**
Purchased debt portfolios	(4 669)	(7 917)	-	-	(468)	-	-	**(13,054)**
Credit management services	(96 739)	-	-	-	-	-	-	**(96,739)**
Other products	(2 569)	(1 276)	-	-	(75)	-	-	**(3,920)**
Unallocated expenses	-	-	-	-	-	-	(4 202)	**(4,202)**
Gross profit[1]	**39 915**	**21 532**	**1 104**	**1 997**	**2 233**	**-**	**(2 075)**	**64,706**
Purchased debt portfolios	(914)	19 720	-	-	1 576	-	-	**20,382**
Credit management services	12 717	-	-	-	-	-	-	**12,717**
Other products	28 112	1 812	1 104	1 997	657	-	-	**33,682**
Unallocated expenses	-	-	-	-	-	-	(2 075)	**(2,075)**
Administrative expenses	(36 939)	(2 783)	(2 421)	(2 862)	(1 258)	(70 392)	-	**(116,655)**
EBITDA[2]	**2 976**	**18 749**	**(1 317)**	**(865)**	**975**	**(70 392)**	**(2 075)**	**(51,949)**
Depreciation and amortisation	-	-	-	-	-	-	-	**(16,907)**
Finance income/costs	-	-	-	-	-	-	-	**(37,992)**
	-	-	-	-	-	-	-	
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	-	**864,412**
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**

[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 2022**	**Jan 1–Dec 31 2021**
Revenue from credit management services	113,061	109,456
Revenue from other services	51,015	37,517
Revenue from purchased debt portfolios	36,768	33,436
Other income	2,561	2,127
Revenue from sale of merchandise and materials	26	85
	203,431	182,621

Revenue from purchased debt portfolios

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Gain/(loss) on expected credit losses	18,700	16,630
Interest income on debt portfolios measured at amortised cost	17,502	17,273
Other income/(expenses) from purchased debt portfolios	566	(467)
	36,768	33,436

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

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Revaluation of projected recoveries	11,712	12,555
Deviations from actual recoveries, decreases on early collections in collateralised cases	6,988	4,075
	18,700	16,630

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;
- cash flows estimation period;
- expected future cash flows estimated using the current data and 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 2022	Dec 31 2021
Discount rate	28.11% - 170.19%	28.11% - 170.19%
Cash flows estimation period	Jan 2023–Dec 2037	Jan 2022–Dec 2036
Undiscounted value of future recoveries *PLN thousand*	90,800	86,162

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

PLN thousand	Dec 31 2022	Dec 31 2021
Period		
Up to 12 months	23,721	24,708
From 1 to 2 years	16,546	16,200
From 2 to 3 years	12,396	11,863
From 3 to 4 years	9,405	8,749
From 4 to 5 years	7,158	6,516
From 5 to 6 years	5,458	4,882
From 6 to 7 years	4,144	3,629
From 7 to 8 years	3,183	2,672
From 8 to 9 years	2,428	1,996
From 9 to 10 years	1,868	1,496
From 10 to 11 years	1,442	1,133
From 11 to 12 years	1,106	859
From 12 to 13 years	829	639
From 13 to 14 years	632	468
From 14 to 15 years	484	351
Over 15 years	-	-
	90,800	86,162

PLN thousand	Dec 31 2022	Dec 31 2021
discount rate:		
< 25%	17	37
25% - 50%	12,950	12,590
> 50%	77,833	73,535
	90,800	86,162

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

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

Other income/(expenses) from purchased debt portfolios

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Foreign exchange gains/(losses)	566	(467)
	566	(467)

Revenue from other services

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Revenue from credit management services	113,061	109,456
Revenue from other services	51,015	37,517
Revenue from sale of merchandise and materials	26	85
	164,102	147,059

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 4.7% of revenue from credit management services, and in the group of related entities – for 86.1% (2021: 2% and 90.6%, respectively).

The performance obligation arises upon execution of the contract and provision of the data necessary to initiate the debt recovery process (Note 3.16.1). Payment for services is made within 14-30 days of the respective invoice date.

Revenue from 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. Payment for services is made within 14-30 days of the respective invoice date.

Other income

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Gain/(loss) on sale of property, plant and equipment	1,550	46
Re-billing income	696	1,333
Compensation for motor damage	244	351
Other	71	136
Reversal of allowance for expected credit losses	-	243
Write-off of unidentified amounts	-	18
	2,561	2,127

6. Services

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
IT services	(12,879)	(11,593)
Advisory services	(12,810)	(3,798)
Credit management services	(9,875)	(9,906)
Postal and courier services	(4,491)	(5,673)
Space rental and service charges	(3,051)	(2,512)
Communications services	(2,868)	(2,627)
Recruitment services	(883)	(215)
Banking services	(845)	(1,197)
Security	(683)	(726)
Other auxiliary services	(567)	(492)
Repair of vehicles	(546)	(847)
Marketing and management services	(499)	(157)
Repair and maintenance services	(417)	(381)
Printing services	(304)	(157)
Transport services	(142)	(78)
Other rental	(115)	(329)
Packing services	(90)	(188)
	(51,065)	(40,875)

7. Other expenses

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Taxes and charges	(11,787)	(11,254)
Raw materials and consumables used	(6,221)	(4,033)
Advertising	(3,136)	(5,525)
VAT on rental payments (leases and rents)	(2,559)	(914)
Staff training	(2,359)	(577)
Motor insurance	(1,263)	(1,084)
Court fees	(909)	(762)
Business trips	(899)	(220)
Refund of litigation costs	(784)	(748)
Entertainment expenses	(729)	(639)
Donations	(506)	-
Non-competition	(365)	(241)
Property insurance	(312)	(273)
Losses caused by motor damage	(194)	(438)
Membership fees	(179)	(110)
Other	(91)	(628)
Allowance for expected credit losses	-	(23)
	(32,293)	(27,470)

8. Employee benefits expense

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Salaries and wages	(140,160)	(119,450)
Equity-settled cost of stock option plan	(27,694)	(18,576)
Old-age and disability pension contributions (defined contribution plans)	(20,980)	(17,989)
Other social security contributions	(10,633)	(9,139)
Contribution to the State Fund for the Disabled	(1,158)	(1,071)
	(200,625)	(166,225)

[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 2022**	**Jan 1–Dec 31 2021**
Interest income on loans advanced and receivables	46,059	19,741
Interest income on bank deposits	417	5
	46,476	19,746

Finance costs

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Interest and commission expense on financial liabilities measured at amortised cost	(138,002)	(56,250)
including interest	*(135,042)*	*(51,975)*
Interest income/expense on derivative instruments – CIRS	-	4,736
Interest income/expense on hedging instruments – CIRS	99	-
Net foreign exchange gains	2,268	2,954
Interest income/expense on hedging instruments – IRS	9,894	(9,179)
Hedging costs	19,770	-
	(105,971)	(57,739)

In 2022, there was a significant increase in interest expense compared with 2021, primarily due to higher debt, including borrowings and bonds, as well as markedly elevated 1M/3M WIBOR rates during the year.

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

PLN thousand	*Note*	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Realised exchange gains/(losses)		1,741	4,093
Remeasurement of debt portfolios due to exchange rate movements	*5*	566	(467)
Unrealised exchange gains/(losses)		527	(1,139)
		2,834	2,487

10. Income tax

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

PLN thousand	*Note*	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Income tax (current portion recognised in profit or loss)			
Income tax[1]		(5,380)	(29,978)
Income tax (deferred portion recognised in profit or loss)			
Temporary differences/reversal of temporary differences	*16*	(31,048)	(32,828)
Income tax recognised in profit or loss		(36,428)	(62,806)
Income tax (deferred portion recognised in comprehensive income)			
Temporary differences/reversal of temporary differences	*16*	(3,294)	-
Income tax recognised in other comprehensive income		(3,294)	-
Income tax recognised in comprehensive income		(39,722)	(62,806)

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

Reconciliation of effective tax rate

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Profit/(loss) before tax	841,410	757,564
Income tax recognised in profit or loss	(36,428)	(62,806)
Tax calculated at the tax rate applicable in Poland (19%)	(159,868)	(143,937)
Differences resulting from ability to control the timing of reversal of temporary differences relating to the measurement of net assets of subsidiaries and the probability of their reversal in the foreseeable future, and other non-deductible expenses/non-taxable income	123,440	57,872
Effect of change in strategy towards subsidiary	-	23,259
	(36,428)	(62,806)
Effective tax rate	4.33%	8.29%

The lower effective tax rate in 2022 compared to 2021 is primarily due to the significant share of the financial results of subsidiaries, the tax value of which will be realised more than three years after the reporting date. 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 next 36 months.

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 2022	Dec 31 2021
Assets			
Non-current assets			
Property, plant and equipment	12	39,774	39,882
Intangible assets	13	30,791	9,502
Hedging instruments	23	27,006	12,804
Equity-accounted investments in subsidiaries	14	4,735,762	3,814,418
Investments	15	418,008	361,879
Total non-current assets		5,251,341	4,238,485
Current assets			
Inventories	17	15,174	18,970
Investments	15	46,735	58,104
Trade receivables from related entities	18	27,523	27,331
Trade receivables from other entities	18	3,339	2,870
Other receivables	18	15,715	7,255
Income tax receivable		9,292	-
Hedging instruments	23	3,329	999
Cash and cash equivalents	19	22,008	53,698
Other assets		8,962	6,367
Total current assets		152,077	175,594
Total assets		5,403,418	4,414,079
Equity and liabilities			
Equity			
Share capital	20	19,319	19,013
Share premium		358,506	333,264
Hedge reserve	23	16,871	17,885
Translation reserve	14	100,448	75,708
Share of other comprehensive income of equity-accounted investees	14	19,911	-
Other capital reserves		149,896	122,202
Retained earnings		2,589,066	2,032,745
Total equity		3,254,017	2,600,817
Non-current liabilities			
Deferred tax liability	16	201,419	167,077
Provisions	25	12,602	12,606
Borrowings, other debt securities and leases	22	1,564,329	1,051,962
Hedging instruments	23	9,824	-
Total non-current liabilities		1,788,174	1,231,645
Current liabilities			
Provisions	25	51	51
Borrowings, other debt securities and leases	22	301,557	513,249
Trade and other payables	26	30,645	29,170
Income tax payable		-	14,995
Employee benefit obligations	24	28,974	24,153
Total current liabilities		361,227	581,617
Total liabilities		2,149,401	1,813,262
Total equity and liabilities		5,403,418	4,414,079

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

Separate financial statements for the year ended December 31st 2022 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

12. Property, plant and equipment

w tysiącach złotych	Budynki i budowle	Maszyny i urządzenia	Środki transportu	Inne rzeczowe aktywa trwałe	Rzeczowe aktywa trwałe w budowie	Ogółem
Wartość brutto rzeczowych aktywów trwałych						
Wartość brutto na dzień 1 stycznia 2021 r.	34 967	28 186	19 005	585	202	82 945
Nabycie	553	4 062	12 744	247	623	18 230
Sprzedaż/likwidacja	(3 028)	(1 130)	(10 603)	-	-	(14 761)
Wartość brutto na dzień 31 grudnia 2021 r.	32 492	31 119	21 147	832	825	86 415

w tysiącach złotych	Budynki i budowle	Maszyny i urządzenia	Środki transportu	Inne rzeczowe aktywa trwałe	Rzeczowe aktywa trwałe w budowie	Ogółem
Wartość brutto na dzień 1 stycznia 2022 r.	32 492	31 119	21 147	832	825	86 415
Nabycie	885	6 475	6 012	308	1 502	15 182
Sprzedaż/likwidacja	(2)	(3 380)	(4 748)	(99)	-	(8 229)
Wartość brutto na dzień 31 grudnia 2022 r.	33 375	34 214	22 411	1 041	2 327	93 368

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 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 depreciation 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
Accumulated depreciation as at Jan 1 2022	(15,397)	(24,456)	(6,221)	(460)	-	(46,534)
Depreciation	(5,365)	(3,847)	(4,979)	(106)	-	(14,297)
Decrease resulting from sale / liquidation	2	3,379	3,763	93	-	7,237
Accumulated depreciation as at Dec 31 2022	(20,760)	(24,924)	(7,437)	(473)	-	(53,594)

PLN thousand	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount						
As at Jan 1 2021	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 at Jan 1 2022	17,094	6,663	14,926	373	825	39,882
As at Dec 31 2022	12,615	9,290	14,974	568	2,327	39,774

As of December 31st 2022 and December 31st 2021 the Company did not recognise any impairment losses on property, plant and equipment.

As at December 31st 2022 and December 31st 2021, the Company had no contractual obligations to purchase of property, plant and equipment.

For more information on security interests in property, plant and equipment, see 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 2022**	**Dec 31 2021**
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	16,629	22,945
Plant and equipment	321	83
Vehicles	13,753	4,665
Intangible assets – software	-	-
	30,703	27,693
Cost of depreciation of right-of-use assets in the reporting period, by class of underlying asset		
Buildings and structures	(5,170)	(5,431)
Plant and equipment	(117)	(83)
Vehicles	(4,979)	(2,696)
Intangible assets – software	(3,027)	-
	(13,293)	(8,210)
Increase in right-of-use assets	28,073	12,943
Decrease in right-of-use assets due to liquidation/termination of contract	(767)	(1,723)
Carrying amount of right-of-use assets, by class of underlying asset at end of reporting period		
Buildings and structures	11,459	16,629
Plant and equipment	204	321
Vehicles	14,019	13,753
Intangible assets – software	19,034	-
	44,716	30,703
Interest expense relating to lease liabilities	1,645	814
Cost relating to variable lease payments not included in the measurement of lease liabilities	-	-
Total cash outflow in connection with leases	19,102	10,221

In 2022, costs under short-term and low-value contracts were PLN 115 thousand (2021: PLN 329 thousand).

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 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
Gross carrying amount as at Jan 1 2022	31,414	369	-	238	32,021
Produced internally	397	-	3,142	-	3,539
Purchase	24,092	-	815	-	24,907
Decreases as a result of liquidation	(350)	-	-	-	(350)
Accounting for deferred assets	238	-	-	(238)	-
Gross carrying amount as at Dec 31 2022	55,791	369	3,957	-	60,117

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 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
Accumulated amortisation as at Jan 1 2022	(22,150)	(369)	-	-	(22,519)
Amortisation	(6,953)	-	-	-	(6,953)
Decreases as a result of liquidation	146	-	-	-	146
Accumulated amortisation as at Dec 31 2022	(28,957)	(369)	-	-	(29,326)

PLN thousand	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2021	9,519	-	-	3,323	12,841
As at Dec 31 2021	9,265	-	-	238	9,502
As at Jan 1 2022	9,265	-	-	238	9,502
As at Dec 31 2022	26,834	-	3,957	-	30,791

As at December 31st 2022 and December 31st 2021, the Company did not recognise any impairment losses on intangible assets.As at December 31st 2022 and December 31st 2021, 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 2022 and December 31st 2021, the Company had no contractual obligations to purchase intangible assets. The data presented in Note 12 under *Right of use* is disclosed in the table above.

14. Equity-accounted investments in subsidiaries

		Carrying amount	
PLN thousand	**Country**	**Dec 31 2022**	**Dec 31 2021**
InvestCapital Ltd[1]	Malta	2,717,866	2,160,283
Prokura NS FIZ[1]	Poland	1,212,018	1,008,030
SeCapital S.à r.l.[1]	Luxembourg	449,912	340,837
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	85,543	73,351
Presco Investments S.a.r.l.[3]	Luxembourg	66,441	65,341
KRUK Espana S.L.	Spain	51,256	38,751
KRUK Romania S.r.l.	Romania	38,751	28,412
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	34,432	32,579
KRUK Italia S.r.l.[4]	Italy	35,513	16,089
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	8,529	10,704
ERIF Biuro Informacji Gospodarczej S.A.[6]	Poland	8,313	9,324
Kancelaria Prawna RAVEN P.Krupa Sp. k.	Poland	7,557	7,824
RoCapital IFN S.A.[1]	Romania	7,013	7,851
Kruk Deutschland GmbH	Germany	6,520	8,305
AgeCredit S.r.l.	Italy	5,552	6,105
ProsperoCapital S.a.r.l. (in liquidation)[2]	Luxembourg	632	632
KRUK TECH s.r.l.[1,5]	Romania	(86)	-
ERIF Business Solutions Sp. z o.o.[6]	Poland	-	-
Novum Finance Sp. z o.o.[1]	Poland	-	-
Wonga.pl Sp. z o.o.	Poland	-	-
Kruk Investimenti s.r.l.	Italy	-	-
Zielony Areał Sp. z o.o.	Poland	-	-
		4,735,762	3,814,418

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

[2] ProsperoCapital S.à.r.l. was a party to a joint arrangement until August 2022, and on December 30, 2022, ProsperoCapital S.à.r.l. was placed in liquidation.

[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.

[5] 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.

[6] The subsidiaries were sold after the reporting date.

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Carrying amount of investments in subsidiaries at beginning of period	3,814,418	3,315,459
Share of profit/(loss) of equity-accounted investees	1,002,707	864,412
Translation reserve	24,740	(5,652)
Share of other comprehensive income of equity-accounted investees	19,911	-
Increase/(decrease) (dividends, in-kind contributions, redemptions, impairment losses)	(126,014)	(359,802)
Carrying amount of investments in subsidiaries at end of period	4,735,762	3,814,418

The share in profit/(loss) of equity-accounted investees for the period from January 1st to December 31st 2022 was PLN 1,002,707 thousand, reflecting mainly revenue from recoveries and revaluation of recovery projections for debt portfolios owned by the investees, net of costs (2021: PLN 864,412 thousand).

In 2022, the following related parties resolved to pay dividend:

- Presco Investments S.a.r.l. – PLN 30,814 thousand,
- Kancelaria Prawna Raven P. Krupa sp.k. – PLN 8,284 thousand,
- KRUK Deutschland Gmbh – PLN 2,417 thousand,
- Secapital S.a.r.l. – PLN 1,334 thousand,
- ERIF Biuro Informacji Gospodarczej S.A. – PLN 1,214 thousand.

In 2021, the following related parties resolved to pay dividend:

- 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.

PLN thousand	Country	Ownership interest and share in total voting rights (%) Dec 31 2022	Dec 31 2021
SeCapital S.à r.l.[1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.[5]	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.[5]	Poland	100%	100%
Novum Finance Sp. z o.o.[1]	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN P.Krupa 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.a.r.l. (in liquidation)[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	n/a	n/a
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	n/a	n/a
Kruk Investimenti s.r.l.	Italy	100%	100%
Zielony Areał Sp. z o.o.	Poland	100%	100%
KRUK TECH s.r.l.[1,4]	Romania	100%	-

[1] Subsidiaries in which the Company indirectly holds 100% of the share capital.
[2] ProsperoCapital S.à.r.l. was a party to a joint arrangement until August 2022, and on December 30, 2022, ProsperoCapital S.à.r.l. was placed in liquidation.
[3] KRUK S.A. controls the company through a personal link.
[4] 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.
[5] The subsidiaries were sold after the reporting date.

On November 17th 2022, ERIF Business Solution Sp. z o.o. of Wrocław, wholly-owned by KRUK S.A., sold one share in InvestCapital LTD of San Gwan, Malta, to Zielony Areał Sp. z o.o. of Wrocław. KRUK S.A. is directly the sole shareholder in Zielony Areał Sp. z o.o. and, indirectly, in InvestCapital LTD.

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2022 and for the period from January 1st to December 31st 2022.

Changes in investments in subsidiaries as at Dec 31 2022

PLN thousand	Share capital increase	Share capital reduction	Capital injection	Return of contributions to equity	Redemption of certificates
InvestCapital Ltd.	80,000	110,000	-	-	-
KRUK Espana S.L.	-	-	12,611	-	-
AgeCredit S.r.l.	-	-	4,024	-	-
KRUK TECH s.r.l.	-	-	91	-	-
Prokura NS FIZ	-	-	-	-	52,110
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	-	-	-	-	7,442
KRUK Italia S.r.l.	-	-	11,435	-	-
Kruk Deutschland GmbH	-	-	-	2,826	-

Changes in investments in subsidiaries as at Dec 31 2021

PLN thousand	Share capital increase	Share capital reduction	Capital injection	Return of contributions to equity	Redemption of certificates
InvestCapital Ltd.	172,000	250,222	-	-	-
KRUK Espana S.L.	-	-	10,937	-	-
AgeCredit S.r.l.	-	-	3,130	-	-
Prokura NS FIZ	-	-	-	-	199,045
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	-	-	-	-	12,807
KRUK Italia S.r.l.	-	-	-	7,047	-
Kruk Deutschland GmbH	-	-	-	3,328	-

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.

prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

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 2022	8.00%	8.67%	8.76%	10.65%	5.91%	7.94%
Weighted average cost of capital for the debt collection industry in 2021	6.06%	6.48%	6.92%	8.39%	4.68%	6.53%

In 2022, the residual value was calculated using a growth rate calculated as the average of projected inflation rates in the forecast period of 2.78%-6.09%, depending on the country (1.37%-2.87% in 2021).

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.

Based on the tests performed, no impairment loss was recognised in 2022 for investments in subsidiaries.

Joint arrangements

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.

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

15. Investments measured at amortised cost

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Investments measured at amortised cost		
Investments in debt portfolios	31,191	31,787
Loans to related parties	433,552	388,195
	464,743	419,983

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 2022**	**Dec 31 2021**
Investments in debt portfolios		
Unsecured portfolios	31,172	31,661
Secured portfolios	19	126
	31,191	31,787

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 acquired secured portfolio is slightly different, with due diligence performed for the portfolios on a case-by-case basis.

The change in expected credit losses on remeasurement of forecast inflows from secured portfolios was PLN -3 thousand in 2022 (2021: PLN -35.5 thousand).

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 projected recoveries

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 236 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 236 thousand for the data as at December 31st 2022 (a PLN 240 thousand increase/decrease, respectively, for the data as at December 31st 2021).

PLN thousand	**Profit or loss for the current period**	
	100 bps increase in recoveries	**100 bps decrease in recoveries**
Dec 31 2022		
Investments in debt portfolios	236	(236)
Dec 31 2021		
Investments in debt portfolios	240	(240)

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 370.4 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 483.8 thousand; for 2021, the amounts were PLN 262,7 thousand and PLN 350,8 thousand, respectively).

PLN thousand	Profit or loss for the current period	
	extension by one year	**shortening by one year**
Dec 31 2022		
Investments in debt portfolios	0.06	(0.13)
Dec 31 2021		
Investments in debt portfolios	0.05	(0.10)

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	**Dec 31 2022**	**Dec 31 2021**
Carrying amount of investments in debt portfolios at beginning of period	31,787	33,329
Cash recoveries	(36,336)	(38,239)
Gain/(loss) on sale/revaluation of property	(1,028)	3,261
Revenue from purchased debt portfolios	36,768	33,436
Carrying amount of investments in debt portfolios at end of period	31,191	31,787

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	**Dec 31 2022**	**Dec 31 2021**
Cumulative expected credit losses on purchased debt portfolios at beginning of period	253,075	232,859
Revaluation of projected recoveries	11,712	12,555
Deviations from actual recoveries, decreases on early collections in collateralised cases	5,958	7,661
Cumulative expected credit losses on purchased debt portfolios at end of period	270,745	253,075

Loans to related parties

As at December 31st 2022, the gross carrying amount of loans to related parties was PLN 462,003 thousand, and the loss allowance was PLN 28,451 thousand (December 31st 2021: PLN 425,829 thousand and PLN 37,635 thousand, respectively).

Loans to related parties are provided on the following terms:
3M PRIBOR/3M EURIBOR/3M ROBOR + 2pp margin
3M WIBOR + margin of 2pp-6.4pp

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 27.

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:

PLN thousand	**Assets**		**Provisions**		**Net carrying amount**	
	Dec 31 2022	**Dec 31 2021**	**Dec 31 2022**	**Dec 31 2021**	**Dec 31 2022**	**Dec 31 2021**
Property, plant and equipment	8,725	6,279	(4,983)	(6,198)	3,742	81
Intangible assets	-	-	(5,051)	(1,712)	(5,051)	(1,712)
Trade and other receivables	-	-	(413)	(245)	(413)	(245)
Borrowings and other debt instruments, leases	16,633	7,775	-	-	16,633	7,775
Employee benefit obligations	2,416	2,282	-	-	2,416	2,282
Provisions and liabilities	-	40	(109)	-	(109)	40
Investments in debt portfolios	-	-	(7,058)	(6,974)	(7,058)	(6,974)
Equity-accounted investments in subsidiaries	-	-	(208,285)	(168,325)	(208,285)	(168,325)
Derivative hedging instruments	-	-	(3,294)	-	(3,294)	-
Deferred tax assets/liability	27,774	16,376	(229,193)	(183,453)	(201,419)	(167,077)
Deferred tax assets offset against liabilities	(27,774)	(16,376)	27,774	16,376	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(201,419)	(167,077)	(201,419)	(167,077)

Change in temporary differences in the period

PLN thousand	Net amount of deferred tax at Jan 1 2022	Change in temporary differences recognised in profit or loss for the period	Net amount of deferred tax at Dec 31 2022	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 Dec 31 2021
Property, plant and equipment	81	3,661	3,742	(78)	159	81
Intangible assets	(1,712)	(3,339)	(5,051)	(1,540)	(172)	(1,712)
Trade and other receivables	(245)	(168)	(413)	(268)	24	(245)
Borrowings and other debt instruments, leases	7,775	8,858	16,633	21,112	(13,337)	7,775
Employee benefit obligations	2,282	134	2,416	2,309	(27)	2,282
Provisions and liabilities	40	(149)	(109)	56	(16)	40
Investments in debt portfolios	(6,974)	(84)	(7,058)	(6,984)	10	(6,974)
Equity-accounted investments in subsidiaries	(168,325)	(39,960)	(208,285)	(148,857)	(19,468)	(168,325)
	(167,077)	(31,048)	(198,125)	(134,249)	(32,828)	(167,077)

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

As the Company is able to control the timing of temporary differences with respect to subsidiaries, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years).

The Company assesses the recoverability of the deferred tax asset based on its approved projection of profits for the following years.

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

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

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

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

- projected new debt financing at KRUK S.A.,
- planned investments in debt portfolios at the KRUK Group, taking into account the associated change in the level of necessary debt financing by KRUK S.A.,

deferred tax liabilities (due to changes in expected future cash flows to KRUK S.A.).

PLN thousand	**debt financing at KRUK S.A. in 2023-2025 higher by PLN 300,000 thousand**	**debt financing at KRUK S.A. in 2023-2025 lower by PLN 300,000 thousand**	**expenditure on debt portfolios at the KRUK Group in 2023-2025 higher by PLN 300,000 thousand***	**expenditure on debt portfolios at the KRUK Group in 2023-2025 lower by PLN 300,000 thousand***
Dec 31 2022				
Deferred tax liability	(31,837)	30,085	(21,671)	21,726

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

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

The Company benefits from the exemption provided in IAS 12 and does not recognise a deferred tax liability in respect of retained earnings in its related entities where it is able to control the timing of the reversal of temporary differences 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 2022 was PLN 3,676,475 thousand (as at December 31st 2021: PLN 2,332,410 thousand).

Unrecognised deferred tax asset due to tax loss

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

Tax losses and periods over which they can be utilised:

PLN thousand	**Tax loss expiry**	**Dec 31 2022**	**Dec 31 2021**
Tax loss for 2018	Dec 31 2023	10,791	17,575
Tax loss for 2019	Dec 31 2024	1,084	1,088
		11,875	18,663
Applicable tax rate		19%	19%
Potential benefit of tax losses		2,256	3,546

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

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Real property	15,049	18,970
Other inventories	125	-
	15,174	18,970

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

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Carrying amount of property held at beginning of period	**18,970**	**28,755**
Carrying amount of property foreclosed	4,880	6,136
Carrying amount of property sold	(5,562)	(10,292)
Impairment loss on property	(3,239)	(5,628)
Carrying amount of property held at end of period	**15,049**	**18,970**

As at December 31st 2022, impairment losses on property were PLN 3,239 thousand (December 31st 2021: PLN 5,628 thousand).

18. Trade and other receivables

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Trade receivables from related entities	27,523	27,331
Trade receivables from other entities	3,339	2,870
	30,862	30,200

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Other receivables from related entities	11,510	4,954
Other receivables from other entities	4,139	2,223
Employee loans	66	78
	15,715	7,255

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 27.

19. Cash and cash equivalents

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Cash in hand	3	1
Cash in current accounts	16,314	14,766
Cash proceeds from bond issues deposited in brokerage account[1]	5,691	38,931
	22,008	53,698

[1] Proceeds from the issue of Series AN2 bonds, of PLN 5,691 thousand, credited in the Company's bank account after the reporting date, on January 10th 2023. Proceeds from the issue of Series AM1 bonds, of PLN 38,931 thousand, credited in the Company'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 27.

20. Equity

Share capital

thousands of shares	Ordinary shares Dec 31 2022	Ordinary shares Dec 31 2021
Number of shares as at Jan 1	19,013	19,011
Issue of shares	306	273
Redemption of treasury shares	-	(271)
Number of fully-paid shares at end of period	19,319	19,013

	Dec 31 2022	Dec 31 2021
PLN		
Par value per share	1.00	1.00
PLN thousand		
Par value of share capital as at Jan 1	19,013	19,011
Par value as at Dec 31	19,319	19,013

Company's shareholding structure

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

As at Dec 31 2022	Number of shares	Total par value (PLN thousand)	Ownership interest (%)
Shareholder			
Piotr Krupa	1,809,050	1,809	9.36%
NN PTE[1]	2,763,000	2,763	14.30%
Allianz OFE	2,359,217	2,359	12.21%
PZU OFE	1,507,000	1,507	7.80%
Aegon OFE	1,140,500	1,141	5.90%
Other members of the Management Board	228,328	228	1.18%
Other shareholders	9,511,695	9,512	49.24%
	19,318,790	19,319	100.00%

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

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

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Other capital reserves

Other capital reserves are created by virtue of relevant resolutions of the KRUK S.A.'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.

For details of the 2015−2019 Incentive Scheme, see the Directors' Reports on the operations of the KRUK Group in 2021 and in prior years.

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

Tranches under the 2015–2019 Incentive Scheme

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

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

As at December 31st 2022, 845,574 subscription warrants were converted into Series F shares in the Company. The eligible persons hold 2,376 warrants convertible into Series F shares issued under the 2015–2019 Incentive Scheme.

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Number of warrants granted to current and former Management Board members under the 2015−2019 Incentive Scheme

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

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

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

** The number of options priced includes all options priced under the 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.*

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

Rights attached to warrants issued under the 2015−2019 Incentive Scheme may be exercised by their holders until December 31st 2022. Due to the expiration of the subscription warrants and rights attached to them on December 31st 2022, the Company will take the necessary measures to forfeit any unexercised warrants registered with the CSDP.

Incentive scheme for 2021–2024

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

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

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

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

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

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

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

Subscription warrants of the basic pool for a given financial year will be granted to eligible persons on condition that EPS (calculated on the basis of the Group's consolidated financial statements) increases by no less than 15.00%. For details on EPS calculations for the purposes of the 2021–2024 Incentive Scheme, see the resolution of the KRUK S.A. General Meeting of June 16th 2021.

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

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

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

Acting pursuant to the Incentive Scheme, by way of a resolution of July 5th 2021 the Supervisory Board determined the list of persons eligible to participate in the 2021–2024 Incentive Scheme, being members of the Company's Management Board. By way of a resolution of July 15th 2021, the Company's Management Board determined the list of persons who are not members of the Management Board and are eligible to participate in the 2021–2024 Incentive Scheme.

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

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

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

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

By way of a resolution of July 5th 2022 determining the list of persons other than Management Board members, who were eligible to subscribe for Tranche 1 subscription warrants for the fulfilment in 2021 of the conditions of the 2021–2024 Incentive Scheme, the Company's Management Board granted a total of 96,094 subscription warrants to the eligible persons.

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

** The number of options priced includes all options priced under the 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.*

The table includes options that were "reverted to the pool" (the options had been valued, but employees did not acquire the rights and the warrants were not offered to them), after which the warrants were granted to other individuals and valued again.

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

As at December 31st 2022 and December 31st 2021, the amount of liabilities under share-based payment transactions was PLN 0. For information on costs of the Incentive Scheme, see Note 29.

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

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

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

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

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

21. Earnings per share

Basic earnings per share

As at December 31st 2022, basic earnings per share were calculated based on net profit attributable to owners of the Company of PLN 804,982 thousand (2021: PLN 694,758 thousand) and the weighted average number of shares in the period covered by the financial statements of 19,136 thousand (2021: 18,966 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

PLN thousand	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Net profit for period	804,982	694,758
Net profit attributable to owners of the Company	804,982	694,758

Weighted average number of ordinary shares

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

Diluted separate earnings per share

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

thousands of shares	**Jan 1–Dec 31 2022**	**Jan 1–Dec 31 2021**
Weighted average number of ordinary shares at end of reporting period	19,136	18,966
Effect of issue of unregistered shares not subscribed for	636	441
Weighted average number of ordinary shares at end of reporting period (diluted)	19,772	19,407
PLN		
Earnings per share (diluted)	40.71	35.80

Dividend per share paid

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

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 27.

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

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Non-current liabilities		
Secured borrowings	229,516	196,000
Liabilities under debt securities (unsecured)	1,308,234	833,032
Lease liabilities	26,579	22,929
	1,564,329	1,051,962
Current liabilities		
Secured borrowings	208,432	31,465
Liabilities under debt securities (unsecured)	73,781	471,727
Lease liabilities	19,344	10,057
	301,557	513,249
	1,865,886	1,565,210

Realised and unrealised exchange differences affecting changes in financial liabilities was PLN -971 thousand in 2022 and PLN -621 thousand in 2021

As at December 31st 2022, borrowing costs capitalised were PLN 13,244 thousand (December 31st 2021: PLN 8,726 thousand).

Liabilities repayment schedule

PLN thousand	Currency	Nominal interest rate	Maturity periods[1]	Dec 31 2022	Dec 31 2021
Borrowings secured over the Company's assets	PLN/EUR	1M WIBOR + margin of 1.0-2.5pp 3M WIBOR + margin of 2.0-2.7pp EURIBOR1M +margin of 2.2-2.4pp	2023-2028	437,948	227,465
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 3.2–4.0pp; 4.00% - 4.80% [2]	2023-2028	1,382,015	1,304,759
Lease liabilities	PLN/EUR	3M WIBOR or 1M EURIBOR + margin of 0.8–9.7pp; 3.3%–6.8%	2023-2026	45,923	32,986
				1,865,886	1,565,210

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

Change in financial liabilities

	As at Dec 31 2022	Disbursements	Repayments	Finance costs	Interest paid	(Gain)/loss on sale of property, plant and equipment	Offset against returns of contributions to subsidiary's equity	As at Dec 31 2021
Secured borrowings	**437,948**	1,072,148	(851,384)	18,498	(19,438)	-	(9,341)	**227,465**
Liabilities under debt securities (unsecured)	**1,382,015**	545,000	(467,926)	118,712	(118,530)	-	-	**1,304,759**
Lease liabilities	**45,923**	27,731	(12,666)	1,760	(1,644)	(2,244)	-	**32,986**
	1,865,886	1,644,879	(1,331,976)	138,970	(139,612)	(2,244)	(9,341)	**1,565,210**

	As at Dec 31 2021	Disbursements	Repayments	Finance costs	Interest paid	(Gain)/loss on sale of property, plant and equipment	Offset against returns of contributions to subsidiary's equity	As at Dec 31 2020
Secured borrowings	**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**

Impact of IBOR reform

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

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

PLN thousand	**Dec 31 2022**
Carrying amount of financial liabilities for which WIBOR is used as the benchmark	
Borrowings secured over the Company's assets	291,220
Liabilities under debt securities (unsecured)	1,382,015
Lease liabilities	13,771
Notional amount of hedging instruments for which WIBOR is used as the benchmark	
CIRS	940,000
IRS	255,000

Security over assets

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	639,806	411,453
Property, plant and equipment used under lease contracts	14,974	14,926
	654,780	426,379

For a description of the security created, see Note 32.

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

Interest rate risk hedges

The Company's exposure to interest rate risk arises mainly from borrowings and debt securities issued (Notes 22 and 27.3).

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

The interest rate risk management policy covers:

- the Company's objectives in terms of interest rate risk,
- principles of interest rate risk management at the Company;
- acceptable impact of interest rate risk on the Company's results (interest rate risk appetite);
- methods of measuring and monitoring interest rate risk and interest rate risk exposure;
- procedures in case of exceeding the Company's interest rate risk appetite;
- interest rate risk hedging policies.

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

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

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

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3M WIBOR plus margin. The designated risk component covers on average 33% of the total position. Only one risk component of the interest rate, i.e. 3M WIBOR, is hedged.

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

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 2022, with a total volume of PLN 255,000 thousand:

Bank	Type of transaction	Notional amount	Side of transaction – Buy / Sale of fixed rate	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	IRS	PLN 30,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Nov 27 2023
Santander Bank Polska S.A.	IRS	PLN 25,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Feb 6 2024
ING Bank Śląski S.A.*	IRS	PLN 35,000,000.00	buy	1.6050%	3M WIBOR	Sep 4 2019 to Oct 12 2023
ING Bank Śląski S.A.*	IRS	PLN 115,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 27 2024
ING Bank Śląski S.A.*	IRS	PLN 50,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 28 2024
TOTAL as at Dec 31 2022	**IRS**	**PLN 255,000,000.00**				

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

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

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Bank	**Type of transaction**	**Notional amount**	**Side of transaction – Buy / Sale of fixed rate**	**Fixed rate**	**Variable rate**	**Term**
Santander Bank Polska S.A.	IRS	PLN 150,000,000.00	buy	2.50%	3M WIBOR	Nov 7 2017 to Mar 2 2022
Santander Bank Polska S.A.	IRS	PLN 50,000,000.00	buy	2.50%	3M WIBOR	Nov 7 2017 to May 4 2022
Santander Bank Polska S.A.	IRS	PLN 75,000,000.00	buy	1.67%	3M WIBOR	Sep 5 2019 to Oct 18 2022
Santander Bank Polska S.A.	IRS	PLN 30,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Nov 27 2023
Santander Bank Polska S.A.	IRS	PLN 25,000,000.00	buy	1.65%	3M WIBOR	Sep 5 2019 to Feb 6 2024
DNB Bank Polska S.A.	IRS	PLN 35,000,000.00	buy	1.6050%	3M WIBOR	Sep 4 2019 to Oct 12 2023
DNB Bank Polska S.A.	IRS	PLN 115,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 27 2024
DNB Bank Polska S.A.	IRS	PLN 50,000,000.00	buy	1.5775%	3M WIBOR	Sep 4 2019 to Sep 28 2024
TOTAL as at Dec 31 2021	**IRS**	**PLN 530,000,000.00**				

In 2022, the Company entered into currency interest rate swaps (CIRS) with a total nominal amount of PLN 940,000 thousand, under which the Company pays a coupon based on a fixed interest rate on debt determined in EUR under the transaction terms and receives a coupon based on a variable interest rate on PLN-denominated debt covered by the transaction. The purpose of the CIRS contracts is to:

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

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

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

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

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As at December 31st 2022, the Company held the following open outstanding CIRS contracts with a total nominal amount of PLN 940,000 thousand:

Bank	Type of transaction	Notional amount	Side of transaction – Buy / Sale of fixed rate	Fixed rate [EUR]	Variable rate [PLN]	Transaction date	Transaction maturity date
ING Bank Śląski S.A.	CCIRS	PLN 330,000,000	buy	2.13%	3M WIBOR	Jun 14 2022	May 24 2027
ING Bank Śląski S.A.	CCIRS	PLN 140,000,000	buy	1.90%	3M WIBOR	Jun 23 2022	Mar 24 2027
Santander Bank Polska S.A.	CCIRS	PLN 50,000,000	buy	1.72%	3M WIBOR	Jun 20 2022	Mar 16 2026
Santander Bank Polska S.A.	CCIRS	PLN 50,000,000	buy	1.56%	3M WIBOR	Jun 21 2022	Mar 16 2026
ING Bank Śląski S.A.	CCIRS	PLN 105,000,000	buy	1.21%	3M WIBOR	Jul 15 2022	Jan 23 2026
ING Bank Śląski S.A.	CCIRS	PLN 52,500,000	buy	0.96%	3M WIBOR	Jul 15 2022	Jan 22 2025
ING Bank Śląski S.A.	CCIRS	PLN 52,500,000	buy	0.955%	3M WIBOR	Jul 18 2022	Jan 23 2024
ING Bank Śląski S.A.	CCIRS	PLN 50,000,000	buy	1.40%	3M WIBOR	Jul 20 2022	Mar 2 2026
ING Bank Śląski S.A.	CCIRS	PLN 25,000,000	buy	0.90%	3M WIBOR	Jul 20 2022	Mar 2 2024
DNB Bank ASA	CCIRS	PLN 60,000,000	buy	1.96%	3M WIBOR	Dec 12 2022	Jul 27 2027
DNB Bank ASA	CCIRS	PLN 25,000,000	buy	2.05%	3M WIBOR	Dec 21 2022	Nov 27 2026
TOTAL as at Dec 31 2022	**CCIRS**	**PLN 940,000,000**					

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The transactions were designated for hedge accounting.

Events subsequent to the reporting date

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

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

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

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

The transaction was designated for hedge accounting.

Currency risk hedges

The Company's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (Note 27.3).

The currency risk management policy outlines:

- the Company's currency risk management objectives,
- the key principles 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 2019, 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 mitigate the effect of exchange differences on cash flows from subsidiaries. The transactions were entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

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Transaction date	Settlement date	Amount in EUR	Value in PLN:
Feb 28 2019	Mar 29 2019	- 65,000,000	280,325,500
Mar 29 2019	Apr 30 2019	- 60,000,000	258,462,000
Apr 30 2019	May 31 2019	- 82,000,000	351,853,800
May 31 2019	Jun 28 2019	- 60,000,000	257,496,000
May 31 2019	Jun 28 2019	- 23,000,000	98,573,400
Jun 28 2019	Jul 31 2019	- 21,000,000	89,434,800
Jun 28 2019	Jul 31 2019	- 60,000,000	255,372,000
Jul 31 2019	Aug 30 2019	- 55,000,000	236,434,000
Jul 31 2019	Aug 30 2019	- 21,000,000	90,241,200
Aug 30 2019	Sep 30 2019	- 32,000,000	140,409,600
Aug 30 2019	Sep 30 2019	- 31,000,000	135,987,700
Sep 30 2019	Oct 31 2019	- 29,000,000	127,104,100
Sep 30 2019	Oct 31 2019	- 30,000,000	131,383,500
Oct 31 2019	Nov 29 2019	- 30,000,000	128,083,500
Oct 31 2019	Nov 29 2019	- 29,000,000	123,757,500
Nov 29 2019	Dec 31 2019	- 30,000,000	129,937,500
Nov 29 2019	Dec 31 2019	- 25,000,000	108,310,000
Aug 31 2021	Sep 30 2021	- 8,000,000	36,180,800
Aug 31 2021	Sep 30 2021	- 14,000,000	63,316,400
Sep 30 2021	Oct 31 2021	- 8,000,000	37,062,000
Sep 30 2021	Oct 31 2021	- 14,000,000	64,858,500
Oct 10 2021	Nov 30 2021	- 22,000,000	101,706,000
Nov 30 2021	Dec 31 2021	- 32,000,000	149,580,800

As at December 31st 2022, the Company did not carry any unsettled forward contracts.

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

The Company does not expect the IBOR reform to have a material impact on hedging relationships in hedge accounting. The Company applied temporary specific exceptions to hedge accounting requirements in IFRS 9 in connection with the IBOR reform and assumed that it could continue hedging relationships. The notional amounts of the hedging instruments to which these exceptions apply are disclosed in Note 22.

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.

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).

Currency risk is also hedged with the use of currency interest rate swaps (CIRS), described in the section above: *Interest rate risk hedges.*

Amounts related to open position designated as hedging instruments

PLN thousand	Carrying amount/fair value of hedging instruments									
	Dec 31 2022				**Dec 31 2021**					
	Assets	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Assets**	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Item in the statement of financial position**	**Hedge type**
Instrument type:										
IRS	18,806	-	255,000 (PLN)	5,003	13,803	-	530,000 (PLN)	32,189	Hedging instruments	Hedge of future cash flows
CIRS	11,529	9,824	940,000 (PLN)	1,705	-	-	- PLN	-	Hedging instruments	Hedge of future cash flows/Hedge of net investment in a foreign operation
	30,335	**9,824**		**6,708**	**13,803**	**-**		**32,189**		

PLN thousand

	Amount of future cash flows as at Dec 31 2022				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	(7,663)	(73,879)	(198,211)	-	-
variable payment PLN	7,663	73,879	198,211	-	-
CIRS					
fixed payment	(33,706)	(32,546)	(136,073)	(966,860)	-
variable payment	8,125	7,790	91,652	998,585	-

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)	-
variable payment PLN	203,479	77,672	69,721	191,613	-

PLN thousand

Disclosure of the hedged item as at Dec 31 2022

	Nominal amount of the hedged item	**Change in the fair value of the hedged item**	**Reserve for measurement of continuing hedges**	**Reserve (unsettled) for measurement of discontinued hedges**
Hedge of future cash flows (interest rate risk)	255,000	5,003	18,806	-
Hedging of a net investment in a foreign operation (currency risk)	-	-	-	4,082
Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)	940,000	1,705	(6,017)	-

PLN thousand

Disclosure of the hedged item as at Dec 31 2021

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

Jan 1–Dec 31 2022

PLN thousand

Hedge reserve	Hedge of future cash flows (interest rate risk)	Hedge of future cash flows (currency risk)	Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)	Total hedge reserve
Hedge reserve as at Jan 1 2022	13,803	4,082	-	17,885
Measurement of instruments charged to capital reserves	14,897	-	(19,995)	(5,098)
Cost of hedging	-	-	37,109	37,109
Temporary differences/reversal of temporary differences	-	-	(3,294)	(3,294)
Amount reclassified to profit or loss during the period	(9,894)	-	(19,837)	(29,731)
- Interest expense/income	(9,894)	-	(67)	(9,961)
- Cost of hedging	-	-	(19,770)	(19,770)
Hedge reserve as at Dec 31 2022	18,806	4,082	(6,017)	16,871

PLN thousand	Jan 1–Dec 31 2021		
	Hedge of future cash flows (interest rate risk)	**Hedge of future cash flows (currency risk)**	**Total hedge reserve**
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/income	(9,179)	-	(9,179)
Hedge reserve as at Dec 31 2021	13,803	4,082	17,885

24. Employee benefit obligations

PLN thousand	Dec 31 2022	Dec 31 2021
Salaries and wages payable	8,596	6,892
Social benefit obligations	10,027	8,172
Provision for accrued holiday entitlements	6,213	5,569
Personal income tax	3,209	2,855
Special accounts	515	340
Liabilities under employee savings plans	414	326
	28,974	24,153

Change in provision for accrued holiday entitlements

PLN thousand	Dec 31 2022	Dec 31 2021
At beginning of period	5,569	5,909
Increase	6,922	5,778
Use	(6,278)	(6,118)
At end of period	6,213	5,569

25. Provisions

PLN thousand	Dec 31 2022	Dec 31 2021
Provision for the loyalty scheme	11,746	11,750
Provision for retirement gratuities	907	907
	12,653	12,657

Changes in provisions for retirement gratuities and the loyalty scheme

PLN thousand	Provision for retirement gratuities	Provision for the loyalty scheme
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
Carrying amount as at Jan 1 2022	907	11,750
Increase	-	1,865
Use	-	(1,869)
Carrying amount as at Dec 31 2022	907	11,746

26. Trade and other payables

PLN thousand	Dec 31 2022	Dec 31 2021
Trade and other payables to related entities	9,446	8,145
Deferred income	5,296	5,296
Trade payables to other entities	8,584	10,302
Other liabilities	6,344	2,758
Accrued expenses	864	1,751
Taxes, customs duties, insurance and other benefits payable	111	918
	30,645	29,170

For information on the exposure to currency risk and liquidity risk associated with liabilities, see Note 27.

27. 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. The Company has not disclosed any information regarding capital management as required by IAS 1. This is because capital is managed on a consolidated basis and the Company is not subject to any regulatory capital requirements.

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.

27.1. 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 business partner, when available, and in some cases bank references.

Each business partner is assigned a transaction limit which represents the maximum transaction amount for which no approval from the Management Board 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 business partners.

Over 80% of the business 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 3.2% of the Company's revenue from credit management and other services (2021: 1.6%), and the respective percentages for the Company's related entities are 59.1% and 67.7%. Receivables from the Company's largest external business partner accounted for 2.9% of total gross trade receivables as at December 31st 2022 (December 31st 2021: 0.9%), and the respective percentages for the Company's related entities were: 36% and 36%. 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 and other 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.

For loans to related parties, measured at amortised cost, the Company estimates the risk of borrowers' default based on the performance of the subsidiaries, appropriately converted to probability of default. Expected credit losses are calculated taking into account the time value of money. To determine the appropriate time horizon for calculating expected credit losses, it is necessary to verify whether there has been a significant increase in credit risk associated with a financial asset since its initial recognition, as this is the foundation for measuring the subsidiary's net assets.
In analysing a significant increase in credit risk of loans, the Company considers whether:
• the financial condition of the subsidiary deteriorated relative to the date of initial recognition of the loan;
• time past due for receivables from the asset exceeds 90 days.

As at December 31st 2022 and December 31st 2021 loans to related parties were not past due. As at December 31st 2022, due to deterioration in the financial condition of related party borrowers, the Company recognised a PLN 28,451 allowance for expected credit losses.

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.

Credit risk exposure

Carrying amounts of financial assets reflect the maximum exposure to credit risk. Maximum exposure to credit risk as at the end of the reporting periods:

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Investments in debt portfolios	31,191	31,787
Loans to related parties	433,552	388,195
Trade and other receivables, net of tax receivable	45,996	37,407
Cash and cash equivalents	22,008	53,698
Hedging instruments	30,335	13,803
	563,082	524,890

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

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Poland	442,758	411,824
Romania	66,145	68,135
Czech Republic and Slovakia	54,179	44,931
	563,082	524,890

Credit risk exposure – Investments in debt portfolios

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Portfolio type		
Unsecured retail portfolios	30,748	31,661
Secured retail portfolios	-	40
Unsecured corporate portfolios	424	-
Secured corporate portfolios	19	86
	31,191	31,787

Credit risk exposure – Cash

PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Cash in accounts with banks rated below BBB – by Standard & Poor's*	425	-
Cash in accounts with banks rated BBB or higher – by Standard & Poor's*	21,583	53,698
	22,008	53,698

** 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
PLN thousand

	Days past due	Expected credit losses as % of gross carrying amount	Carrying amount as at Dec 31 2022 (IFRS 9)	Carrying amount as at Dec 31 2021 (IFRS 9)
Trade and other receivables, net of tax receivable	<1 days		45,996	37,407
	1-90 days		156	216
	>90 days			-
			46,152	37,623
Allowance for expected credit losses	<1 days	0.0%	-	-
	1-90 days	0.7%	156	216
	>90 days	100.0%	-	-
			156	216
Net carrying amount	<1 days		45,996	37,407
	1-90 days		-	-
	>90 days		-	-
			45,996	37,407

Changes in allowances for expected credit losses on receivables:

PLN thousand	Dec 31 2022	Dec 31 2021
Loss allowance at beginning of period	216	436
Allowance for expected credit losses recognised in the reporting period	64	23
Reversal of allowance for expected credit losses	(104)	(243)
Use of allowance for expected credit losses	(20)	-
Loss allowance at end of period	156	216

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 2022–2021, the Company did not recognise any general impairment losses on receivables.

Breakdown of loans to related parties into quality baskets as at the end of the reporting periods:

PLN thousand	**Basket 1**	**Basket 2**	**Basket 3**	**TOTAL**
Gross carrying amount of loans to related parties as at Jan 1 2021	64,838	244,394	1,655	310,886
Disbursements	49,745	115,558	33	165,336
Repayments	(26,810)	(21,894)	(1,688)	(50,392)
Gross carrying amount of loans to related parties as at Dec 31 2021	**87,773**	**338,057**	**-**	**425,829**
Disbursements	33,379	84,435	-	117,814
Repayments	(26,031)	(55,610)	-	(81,641)
Gross carrying amount of loans to related parties as at Dec 31 2022	**95,121**	**366,882**	**-**	**462,003**

PLN thousand	**Basket 1**	**Basket 2**	**Basket 3**	**TOTAL**
Allowance for expected credit losses as at Jan 1 2021	-	22,362	1,333	23,695
Recognised	-	42,536	172	42,708
Reversed	-	(27,263)	(1,505)	(28,768)
Allowance for expected credit losses as at Dec 31 2021	-	**37,635**	-	**37,635**
Recognised	-	52,225	-	52,225
Reversed	-	(61,409)	-	(61,409)
Allowance for expected credit losses as at Dec 31 2022	-	**28,451**	-	**28,451**

PLN thousand	**Basket 1**	**Basket 2**	**Basket 3**	**TOTAL**
Net carrying amount of loans to related parties as at Dec 31 2021	87,773	300,422	-	388,195
Net carrying amount of loans to related parties as at Dec 31 2022	95,121	338,431	-	433,552

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

27.2. 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 2022 *PLN thousand*	**Present value**	**Undiscounted contractual/estimated cash flows**	**Less than 6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Non-derivative financial assets and liabilities							
Cash and cash equivalents	22,008	22,008	22,008	-	-	-	-
Trade and other receivables, net of tax receivable	45,996	45,996	45,996	-	-	-	-
Investments in debt portfolios*	31,191	90,800	12,879	10,844	16,546	28,958	21,573
Secured borrowings	(437,948)	(519,134)	(86,249)	(13,155)	(111,797)	(303,786)	(4,147)
Liabilities under debt securities (unsecured)	(1,382,015)	(1,928,811)	(67,451)	(132,349)	(175,021)	(1,195,002)	(358,988)
Lease liabilities	(45,923)	(44,348)	(10,298)	(10,006)	(16,280)	(7,764)	-
Trade and other payables	(24,374)	(24,374)	(24,374)	-	-	-	-
	(1 791 065)	(2 357 863)	(107 489)	(144 666)	(286 552)	(1 477 594)	(341 562)
Contingent liabilities under sureties/guarantees issued							
Contingent liabilities under sureties/guarantees issued to subsidiaries**	(3 714 058)	(3 714 058)	(459 758)	-	(2 764 696)	(62 400)	(427 204)
	(5 505 123)	(6 071 921)	(567 247)	(144 666)	(3 051 248)	(1 539 994)	(768 766)

As at Dec 31 2021
PLN thousand

	Present value	Undiscounted contractual/estimated cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
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)
Contingent liabilities under sureties/guarantees issued							
Contingent liabilities under sureties/guarantees issued to subsidiaries**	(2 834 938)	(2 834 938)	(416 606)	-	(2 055 932)	(7 500)	(354 900)
	(4 298 461)	(4 478 913)	(833 700)	(107 998)	(2 235 203)	(607 648)	(694 364)

** Estimated cash flows*
*** Contingent liabilities under sureties/guarantees issued to subsidiaries were presented in nominal values. The value of sureties accounts for 150% of the value of indebtedness. Fulfillment of the obligation will occur when covenants are not met, debt not paid. As at December 31, 2022 and December 31 2021, KRUK S.A. does not see any potential obligation resulting from guarantees/sureties.*

The above amounts do not include expenditure on and recoveries 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 2022 and December 31st 2021, respectively.

The Company does not expect the projected cash flows discussed in the maturity analysis to occur significantly earlier than assumed or in amounts materially different from those presented.

As at December 31st 2022, the undrawn revolving credit facility limit available to the Company was PLN 78,588 thousand (December 31st 2021: PLN 280,932 thousand). The limit is available until January 30th 2028.

27.3. 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 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 principles 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 22).

As at December 31st 2022, assets denominated in foreign currencies accounted for 0.5% of total assets, while liabilities denominated in foreign currencies represented 3.1% of total equity and liabilities (December 31st 2021: 0.6% and 10.6%, respectively).

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

prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

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

thousands	Dec 31 2022			Dec 31 2021		
	EUR	RON	CZK	EUR	RON	CZK
Cash	221	407	2,018	741	844	397
Investments in debt portfolios	131	24,046	1,060	310	23,417	1,609
Borrowings, other debt securities and leases	(166,979)	-	-	(191,780)	-	-
Trade payables	-	-	-	(255)	-	-
Exposure to currency risk	(166,627)	24,453	3,078	(190,984)	24,261	2,006

Analysis of sensitivity of currency risk exposure to +10% increase in exchange rates

thousands	Dec 31 2022			Dec 31 2021		
	EUR	RON	CZK	EUR	RON	CZK
Cash	22	41	202	74	84	40
Investments in debt portfolios	13	2,405	106	31	2,342	161
Borrowings, other debt securities and leases	(16,698)	-	-	(19,178)	-	-
Trade payables	-	-	-	(26)	-	-
Exposure to currency risk	(16,663)	2,446	308	(19,098)	2,426	201

Analysis of sensitivity of currency risk exposure to -10% decrease in exchange rates

thousands	Dec 31 2022			Dec 31 2021		
	EUR	RON	CZK	EUR	RON	CZK
Cash	(22)	(41)	(202)	(74)	(84)	(40)
Investments in debt portfolios	(13)	(2,405)	(106)	(31)	(2,342)	(161)
Borrowings, other debt securities and leases	16,698	-	-	19,178	-	-
Trade payables	-	-	-	26	-	-
Exposure to currency risk	16,663	(2,446)	(308)	19,098	(2,426)	(201)

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 2022	**Jan 1–Dec 31 2021**	**Dec 31 2022**	**Dec 31 2021**
EUR 1	4.6883	4.5775	4.6899	4.5994
USD 1	4.4679	3.8757	4.4018	4.0600
RON 1	0.9501	0.9293	0.9475	0.9293
CZK 1	0.1910	0.1785	0.1942	0.1850

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

As at December 31st 2022 and December 31st 2021, the appreciation/depreciation 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 2022		
EUR (10% appreciation of PLN)	-	(16,663)
RON (10% appreciation of PLN)	-	2,446
CZK (10% appreciation of PLN)	-	308
Dec 31 2021		
EUR (10% appreciation of PLN)	-	(19,098)
RON (10% appreciation of PLN)	-	2,426
CZK (10% appreciation of PLN)	-	201

PLN thousand	**Other comprehensive income**	**Profit or loss for the current period**
Dec 31 2022		
EUR (10% depreciation of PLN)	-	16,663
RON (10% depreciation of PLN)	-	(2,446)
CZK (10% depreciation of PLN)	-	(308)
Dec 31 2021		
EUR (10% depreciation of PLN)	-	19,098
RON (10% depreciation of PLN)	-	(2,426)
CZK (10% depreciation of PLN)	-	(201)

Exposure to interest rate risk

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

	Carrying amount	
PLN thousand	**Dec 31 2022**	**Dec 31 2021**
Fixed-rate financial instruments[1]		
Financial assets	99,195	122,892
Financial liabilities	(202,487)	(386,477)
	(103,292)	(263,585)
Hedge effect (nominal amount)	(1,195,000)	(530,000)
	(1,298,292)	(793,585)
Variable-rate financial instruments[2]		
Financial assets	463,887	401,998
Financial liabilities	(1,697,597)	(1,199,938)
	(1,233,710)	(797,940)
Hedge effect (nominal amount)	1,195,000	530,000
	(38,710)	(267,940)

[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.

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.

PLN thousand	**Profit or loss**	
	increase by 100 bps	**decrease by 100 bps**
Dec 31 2022		
Variable-rate financial assets	4,639	(4,639)
Variable-rate financial liabilities	(16,976)	16,976
Dec 31 2021		
Variable-rate financial assets	4,020	(4,020)
Variable-rate financial liabilities	(11,999)	11,999

Fair values

Comparison of fair values and carrying amounts

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

PLN thousand	**Dec 31 2022**		**Dec 31 2021**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Hedging instruments (IRS)	18,806	18,806	13,803	13,803
Hedging instruments (CIRS)	11,529	11,529	-	-
Hedging instruments (CIRS)	(9,824)	(9,824)	-	-
	20,511	20,511	13,803	13,803
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	31,191	29,008	31,787	30,285
Loans to related parties	433,552	433,552	388,195	388,195
Trade and other receivables, net of tax receivable	45,996	45,996	37,407	37,407
Trade and other payables	(24,374)	(24,374)	(21,205)	(21,205)
Secured borrowings	(437,948)	(437,948)	(227,465)	(225,158)
Liabilities under debt securities (unsecured)	(1,382,015)	(1,366,416)	(1,304,759)	(1,330,251)
	(1,333,598)	(1,320,182)	(1,096,040)	(1,120,727)

Interest rates used for fair value estimation

	Dec 31 2022	Dec 31 2021
Investments in debt portfolios	0.81% - 55.14%	0.32% - 55.14%
Secured borrowings	4.08% - 9.72%	4.54% - 5.04%
Loans to related parties	3.19% - 13.71%	2.00% - 8.94%

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

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

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

PLN thousand		**Level 2**
	Carrying amount	**Fair value**
As at Dec 31 2022		
Hedging instruments (IRS)	18,806	18,806
Hedging instruments (CIRS)	11,529	11,529
Hedging instruments (CIRS)	(9,824)	(9,824)
Trade and other receivables, net of tax receivable	45,996	45,996
Secured borrowings	(437,948)	(437,948)
Trade and other payables	(24,374)	(24,374)

As at Dec 31 2021		
Hedging instruments (IRS)	13,803	13,803
Trade and other receivables, net of tax receivable	37,407	37,407
Secured borrowings	(227,465)	(225,158)
Trade and other payables	(21,205)	(21,205)

The fair value of derivative and hedging instruments is determined on the basis of future cash flows from the executed transactions, calculated on the basis of the difference between the forecast 3M WIBOR and 3M WIBOR as at the transaction date. To determine the fair value, the Company uses a 3M WIBOR forecast provided by an external company.

The fair value of financial liabilities under borrowings is determined on the basis of future cash flows from the executed transactions, calculated based on the difference between the margin applicable to the financial liabilities as at the reporting date and the margin as at the transaction date. For the purpose of fair value calculation the Company uses margin rates from the most recent credit facility agreement.
The Company uses Level 2 inputs to determine the fair value of trade and other receivables, excluding receivables on account of taxes, bank borrowings, lease liabilities, and trade and other payables.

PLN thousand		**Level 3**
	Carrying amount	**Fair value**
As at Dec 31 2022		
Investments in debt portfolios	31,191	29,008
Loans to related parties	433,552	433,552
As at Dec 31 2021		
Investments in debt portfolios	31,787	30,285
Loans to related parties	388,195	388,195

The fair value of investments in debt portfolios is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio. The rate used for discounting is calculated as an internal rate of return on an investment as at the date of acquisition of a portfolio and is verified so that it includes the current risk free rate and the current risk premium associated with the credit risk for each portfolio.
The difference between the fair value and the carrying amount calculated using the amortised cost method results from a different methodology for calculating both these amounts. The carrying amount is affected by estimated remaining collections on debt portfolios and the exchange rate as at the reporting date, while the fair value is additionally affected by projected costs of debt collection and the risk-free rate.

28. 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 2022	Jan 1–Dec 31 2021
Base pay/ managerial contract (gross)	6,752	5,946
Additional benefits	85	68
Share-based payments	27,694	18,576
	34,531	24,589

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

Remuneration of the Company's directors – Supervisory Board

Remuneration of members of the Supervisory Board was as follows:

PLN thousand	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Base pay/ managerial contract (gross)	1,127	932
Additional benefits	22	15
	1,149	947

Other transactions with the Company's directors

As at December 31st 2022, members of the Management Board and persons closely related to them jointly held 10.55% of the total voting rights at the Company's General Meeting (December 31st 2021: 10.05%)

In 2021 and 2022, there were no transactions with close family members of the Company's key management personnel that are not disclosed in these financial statements.

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 28,451 thousand (2021: PLN 37,635 thousand). For information on expected credit losses on loans advanced, see Note 27.1.

Transactions with related parties were made on an arm 's-length basis and are presented below.

Transactions with subsidiaries as at and for the period ended December 31st 2022 and December 31st 2021

Balance of receivables, liabilities and loans from and to subsidiaries as at December 31st 2022 and December 31st 2021

	Dec 31 2022							Dec 31 2021						
PLN thousand	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced	Allowance for expected credit losses	Loans received	Interest accrued on loans received	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced	Allowance for expected credit losses	Loans received	Interest accrued on loans received
SeCapital S.à. r.l	3,759	66	-	-	-	-	-	3,456	23	-	-	-	-	-
ERIF Business Solutions Sp. z o.o.	-	20	-	-	-	-	-	-	17	-	8	-	-	-
Novum Finance Sp. z o.o.	228	442	45,342	-	(3,160)	-	-	141	545	33,742	119	(96)	-	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	272	2,965	-	-	-	-	-	71	2,496	-	-	-	-	-
KRUK Romania S.r.l.	402	3,309	36,753	524	-	-	-	459	1,230	39,762	300	-	-	-
ERIF BIG S.A.	-	140	-	-	-	6,600	-	24	177	-	-	-	7,600	-
NSFIZ PROKURA	1,848	11,221	-	-	-	-	-	2,334	10,907	-	-	-	-	-
KRUK Česká a Slovenská republika s.r.o.	20	1,847	52,237	751	-	-	-	27	745	43,013	-	-	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	7,721	-	-	-	-	-	-	10,464	-	-	-	-	-
InvestCapital Ltd.	726	-	-	-	-	-	-	-	316	-	-	-	-	-
KRUK Deutschland GmbH	-	19	-	-	-	-	-	-	14	-	-	-	-	-
Rocapital IFN S.A.	-	6	4,738	118	-	-	-	-	1	4,647	44	-	-	-
KRUK Italia S.r.l.	-	770	-	-	-	-	-	-	228	-	-	-	-	-
ItaCapital S.r.l.	-	8	-	-	-	-	-	-	1	-	-	-	-	-
KRUK Espana S.L.	-	1,255	-	-	-	-	-	-	1,292	-	-	-	-	-
Presco Investments S.a.r.l.	2,146	6,934	-	-	-	-	-	1,604	2,142	-	-	-	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	43	326	-	-	-	-	-	26	255	-	-	-	-	-
ProsperoCapital S.a.r.l. (in liquidation)	-	-	-	-	-	-	-	-	23	-	-	-	-	-
Corbul Capital S.r.l	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elleffe Capital S.r.l.	-	7	-	-	-	-	-	-	1	-	-	-	-	-
NSFIZ BISON	-	1,809	-	-	-	-	-	-	1,383	-	-	-	-	-
AgeCredit S.r.l.	-	45	-	-	-	-	-	-	19	-	-	-	-	-
Wonga.pl Sp. z o.o.	-	92	320,640	-	(24,903)	-	-	-	2	303,895	-	(37,527)	-	-
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	2	-	-	-	-	-	-	2	-	-	-	-	-	-
Kruk Investimenti s.r.l.	-	8	-	-	-	-	-	-	1	-	-	-	-	-
Zielony Areał Sp. z o.o.	-	8	900	-	(388)	-	-	-	2	300	-	(11)	-	-
KRUK TECH s.r.l.	-	15	-	-	-	-	-	-	-	-	-	-	-	-
	9,446	39,033	460,610	1,393	(28,451)	6,600	-	8,145	32,284	425,358	472	(37,635)	7,600	-

Income from intra-group transactions in the periods ended December 31st 2022 and December 31st 2021

	Jan 1–Dec 31 2022			Jan 1–Dec 31 2021		
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	4	51	-	12	62	-
ERIF Business Solutions Sp. z o.o.	179	-	-	106	-	33
Novum Finance Sp. z o.o.	1,761	1,707	4,131	1,582	1,138	1,725
Kancelaria Prawna RAVEN P.Krupa Sp. k.	10,590	-	-	7,762	-	-
KRUK Romania S.r.l.	3,924	-	1,674	3,077	-	1,105
ERIF BIG S.A.	910	-	-	776	-	-
NSFIZ PROKURA	7,961	-	-	4,596	-	-
KRUK Česká a Slovenská republika s.r.o.	1,812	-	2,245	730	-	414
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	234	96,801	-	243	99,220	-
InvestCapital Ltd.	16,745	-	-	15,398	-	-
KRUK Deutschland GmbH	7	-	-	2	-	-
Rocapital IFN S.A.	-	-	404	11	-	175
KRUK Italia S.r.l.	3,193	-	-	1,104	-	-
ItaCapital S.r.l.	-	-	-	-	-	-
KRUK Espana S.L.	3,573	-	-	1,997	-	-
Presco Investments S.a.r.l.	4	1,217	-	12	1,740	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-	-	-	-
ProsperoCapital S.a.r.l. (in liquidation)	4	-	-	12	-	-
Corbul Capital S.r.l	-	-	-	-	-	-
Elleffe Capital S.r.l.	-	-	-	-	-	-
NSFIZ BISON	-	-	-	-	-	-
AgeCredit S.r.l.	29	-	-	-	-	-
Wonga.pl Sp. z o.o.	-	3	37,549	6	5	16,287
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	-	-	-	-	-	-
Kruk Investimenti s.r.l.	-	-	-	-	-	-
Zielony Areał Sp. z o.o.	15	-	56	4	-	2
KRUK TECH s.r.l.	-	-	- -	-	-	-
	50,945	99,779	46,059	37,431	102,165	19,741

Expenses on intra-group transactions in the periods ended December 31st 2022 and December 31st 2021

	Jan 1–Dec 31 2022		Jan 1–Dec 31 2021	
PLN thousand	**Purchase of services**	**Interest**	**Purchase of services**	**Interest**
Kancelaria Prawna RAVEN P.Krupa Sp. k.	1,655	-	1,310	-
KRUK Romania S.r.l.	5,352	-	6,412	-
ERIF BIG S.A.	238	526	206	165
SeCapital S.à. r.l	-	4	-	48
KRUK Česká a Slovenská republika s.r.o.	336	-	445	-
ERIF Business Solutions Sp. z o.o.	1	-	2	-
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	23	-	24	-
KRUK Italia S.r.l.	-	31	-	102
KRUK Espana S.L.	24	-	-	-
Wonga.pl Sp. z o.o.	323	-	-	-
	7,952	561	8,400	316

29. 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
Dec 31 2022	27,694
Total	109,695

The management stock option plans are described in Note 20.

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30. Other notes

30.1. 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 2022	Jan 1–Dec 31 2021
Change in trade and other receivables presented in the separate statement of financial position	**(9,121)**	**(6,353)**
Receivables under redeemed investment certificates	53,919	-
Offset against accounts receivable and dividends declared but not paid	3,417	13,735
Change in trade and other receivables presented in the separate statement of cash flows	**48,215**	**7,382**

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Net finance costs presented in the separate statement of profit or loss	**59,495**	**37,992**
Realized exchange differences on write-offs of investments in subsidiaries	-	(1,902)
Other exchange differences	(31)	-
Net finance costs presented in the separate statement of cash flows	**59,464**	**36,090**

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Change in trade and other payables presented in the separate statement of financial position	**1,475**	**(22,693)**
Offset against accounts receivable and dividends declared but not paid	19,713	32,815
Change in trade and other payables presented in the separate statement of cash flows	**21,188**	**10,121**

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

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

Impact of inflation on KRUK S.A.'s business

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

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

Effect of Russia's aggression on Ukraine on KRUK S.A.'s business

Russia's aggression against Ukraine started on February 24th 2022. KRUK S.A. does not possess any assets in Ukraine or Russia, nor does it engage in any business activities in these countries. Therefore, the Company anticipates that any impact of the conflict on its operations will be indirect and minimal.

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.

30.3. Risk of negative impacts on the natural environment

Environmental impact risks primarily relate to the Company's potential negative effects on the environment and climate through its own operations, the products and services it provides, including project financing and management of climate risks, which could be transformational for the Company. Understanding its environmental impact and stakeholders' expectations, the Company has decided to define its environmental objectives and incorporate them into its Environmental, Social, and Governance (ESG) strategy, which is part of its business strategy. The objectives are based on the UN Sustainable Development Goals and on the European Green Deal.
In line with the Scope 1 and Scope 2 guidance of GHG Protocol, an action plan has been implemented in each country where the KRUK S.A. and its subsidiaries are present to achieve 70% reduction in carbon emissions by 2040, including by improving the efficiency of the car fleet, using renewable energy sources, and cutting energy consumption in office buildings. Given the new obligations imposed by the Corporate Sustainable Reporting Directive, the Company intends to meet the Scope 3 objectives of GHG Protocol with respect to its business model and include its value chain in the calculations.
As a component of its ESG strategy, the Company intends to commence reporting emissions for each of its primary business processes by 2026. The Company is committed to continuously raising awareness among its employees, suppliers, and the public about environmental protection and the preservation and enhancement of the natural environment, in order to achieve all of its strategic environmental objectives.

Leveraging its expertise and knowledge in debt, the Company has been undertaking consistent measures since 2019 to raise public awareness about the issue of ecological debt and excessive consumerism. Such measures have highlighted the connection between financial and ecological debts.
A good occasion to raise this problem is the Earth Overshoot Day, on which the Company issues various press releases concerning the consequences of Poles' excessive consumerism, based on public surveys commissioned by the Company. In the run-up to the event, KRUK S.A. commissioned an online survey – 'Economic and Environmental Attitudes among Poles 2022'. Its environmental message reached over 31 thousand unique respondents.
In 2022, the Company became a member of the United Nations Global Compact's (UNGC) Climate Positive initiative, which aims to equip businesses with expert knowledge on combating climate change, lowering their carbon footprint, and enhancing environmental awareness. As a member of the initiative, the Company has received an invitation to join the UNGCNP Business Council.
For further details on how the Company manages its environmental and climate impacts, please refer to the Directors' Report on the operations of the KRUK Group and KRUK S.A.

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

31. Auditor's fees

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

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

Security created over KRUK S.A.'s assets as at December 31st 2022 is presented below:

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Guarantees provided/promissory notes issued				
Surety for PROKURA NS FIZ's liabilities under the revolving credit facility of July 2nd 2015, as amended, between PROKURA NS FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 119,700 thousand	No later than July 3rd 2030	Prokura NS FIZ's failure to pay amounts owed to the bank under the revolving credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	Until the derivative transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 54,900 thousand	No later than July 31st 2027	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Surety for PROKURA NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility agreement of December 20th 2018, as amended, between PROKURA NS FIZ, KRUK S.A. and ING Bank Śląski S.A.	ING Bank Śląski S.A.	PLN 300,000 thousand	No later than May 20th 2031	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between Kruk S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and PKO BP S.A. and Bank Handlowy w Warszawie S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	EUR 589,500 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019

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Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of September 21st 2021 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 33,480 thousand	No later than September 20th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ’s liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of December 14th 2021 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 68,640 thousand	No later than December 13th 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ’s liabilities towards Pekao S.A. under the overdraft facility agreement of February 1st 2022 between PROKURA NS FIZ, KRUK S.A. and Pekao S.A.	Pekao S.A.	PLN 120,000 thousand	No later than January 31st 2031	Prokura NS FIZ’s failure to pay amounts owed to the bank under the overdraft facility agreement
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of August 22nd 2022 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 75,240 thousand	No later than August 21st 2030	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for InvestCapital Ltd's obligations to BANKINTER S.A. of Madrid, under the direct debit collection management contract between BANKINTER S.A. and InvestCapital Ltd. dated July 7th 2022.	BANKINTER S.A.	EUR 1,600 thousand	Until all obligations under the direct debit collection management contract of July 7th 2022 are satisfied.	InvestCapital Ltd's failure to pay amounts due to the Bank under the direct debit collection management contract of July 7th 2022.
Guarantees obtained				
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.’s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 300 thousand and PLN 215 thousand	No later than December 30th 2023	KRUK S.A.’s failure to repay its liabilities under the rental agreement secured with the guarantee

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

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

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

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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
Guarantees provided/promissory notes issued				
Surety for PROKURA NS FIZ's liabilities under the revolving credit facility of July 2nd 2015, as amended, between PROKURA NS FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 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
Surety for PROKURA NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility agreement of December 20th 2018, as amended, between PROKURA NS FIZ, KRUK S.A. and ING Bank Śląski S.A.	ING Bank Śląski S.A.	PLN 300,000 thousand	No later than December 20th 2029	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between Kruk S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and PKO BP S.A. and Bank Handlowy w Warszawie S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	EUR 447,000 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019

prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

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
Guarantees obtained				
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 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

33. Events subsequent to the reporting date

- On January 3rd 2023, KRUK S.A., CRIF A.G. of Zurich, Switzerland and CRIF sp. z o.o. of Kraków executed an agreement to sell all shares in the subsidiaries ERIF Biuro Informacji Gospodarczej S.A. (ERIF) and ERIF Business Solutions spółka z o.o. (EBS).

- On January 4th 2023, as part of the First Prospectus-Exempt Bond Issue Programme, Series AL3 unsecured bonds with a total nominal value of PLN 120,000 thousand were issued. 120,000 bonds were allocated to investors, each with a nominal value equal to the issue price of PLN 1 thousand.

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

Subsequent to the end of the reporting period, there were no other reportable material events whose disclosure in these 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 keeping the accounting records

Hanna Stempień
Prepared by

Wrocław, March 8th 2023