KRUK S.A.

Separate financial statements

for the year ended December 31st 2019

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

KRUK S.A.

Dec 31 2019

Separate financial statements

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Separate statement of profit or loss

For the reporting period January 1st 2019 – December 31st 2019.

PLN '000	***Note***	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Revenue	*5*	174,676	120,175
including interest income calculated using the effective interest rate method		*20,263*	*20,364*
Other income	*6*	1,693	2,391
		176,369	122,566
Employee benefits expense	*9*	(148,885)	(129,428)
Depreciation and amortisation		(18,823)	(13,073)
Services	7	(35,655)	(38,730)
Other expenses	*8*	(31,606)	(37,281)
		(234,969)	(218,512)
Operating loss		(58,600)	(95,946)
Finance income	*10*	532,976	133,006
Finance costs	*10*	(78,027)	(92,179)
Net finance costs		454,950	40,827
Profit/(Loss) before tax		396,350	(55,119)
Income tax	*11*	(9,833)	(2,699)
Net profit/(loss) for period		386,517	(57,818)
Earnings/(loss) per share			
Basic (PLN)	*23*	20.43	(3.07)
Diluted (PLN)	*23*	20.00	(2.99)

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

Separate statement of comprehensive income

For the reporting period January 1st 2019 – December 31st 2019.

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Net profit/(loss) for period	**386,517**	**(57,818)**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	3,947	(11,131)
Income tax on derivatives	-	1,380
Items that will not be reclassified subsequently to profit or loss		
Income tax on other comprehensive income	-	-
Other comprehensive income for the period, net	3,947	(9,751)
Total comprehensive income for the period	**390,464**	**(67,569)**
Total earnings per share		
Basic (PLN)	20.64	(4.16)
Diluted (PLN)	20.20	(4.06)

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

Separate statement of financial position

As at Dec 31 2019
PLN '000

		Note	Dec 31 2019	Dec 31 2018
Assets				
	Cash and cash equivalents	21	13,812	9,151
	Trade receivables from related entities	20	28,198	21,814
	Trade receivables from other entities	20	3,365	2,811
	Investments	16	361,544	149,667
	Investment property	17	30,279	27,238
	Other receivables	20	54,597	7,223
	Inventories	19	15	22
	Property, plant and equipment	13	34,944	16,169
	Intangible assets	14	15,084	16,547
	Deferred tax asset	18	3,877	453
	Other derivatives	25	4,219	1,450
	Investments in subsidiaries	15	2,212,258	2,143,481
	Other assets		4,683	4,173
Total assets			2,766,876	2,400,199
Equity and liabilities				
Liabilities				
	Other derivatives	25	3,924	3,870
	Trade and other payables	28	73,882	62,948
	Employee benefit obligations and provisions	26	21,323	19,199
	Income tax payable		690	12,295
	Borrowings, other debt securities and leases	24	1,784,605	1,731,998
Total liabilities			1,884,424	1,830,310
Equity				
	Share capital	22	18,972	18,887
	Share premium		307,107	300,097
	Cash flow hedging reserve		78	(3,869)
	Other capital reserves		104,582	94,924
	Retained earnings		451,714	159,850
Total equity			882,452	569,889
Equity and liabilities			2,766,876	2,400,199

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

Separate statement of changes in equity

For the reporting period ended December 31st 2018

PLN '000	***Note***	Share capital	Share premium	Capital hedging reserve	Other capital reserves	Retained earnings	**Total equity**
Total equity as at Jan 1 2018		18,808	293,581	5,882	86,806	309,548	714,625
Adjustment on transition to IFRS 9		-	-	-	-	2,160	2,160
Equity as at Jan 1 2018 following changes in accounting policies		18,808	293,581	5,882	86,806	311,708	716,785
Comprehensive income for the period							
Net profit/(loss) for period		-	-	-	-	(57,818)	(57,818)
Other comprehensive income							
- Valuation of hedging instruments		-	-	(9,751)	-	-	(9,751)
Total other comprehensive income		-	-	(9,751)	-	-	(9,751)
Total comprehensive income for the period		-	-	(9,751)	-	(57,818)	(67,569)
Contributions from and distributions to owners		-	-	-	-	-	-
- Payment of dividends	23					(94,040)	(94,040)
- Share-based payments	31	-	-	-	8,118	-	8,118
- Issue of shares	22	79	6,516	-	-	-	6,595
Total contributions from and distributions to owners		79	6,516	-	8,118	(94,040)	(79,327)
Total equity as at Dec 31 2018		18,887	300,097	(3,869)	94,924	159,850	569,889

For the reporting period ended December 31st 2019

PLN '000		Share capital	Share premium	Capital hedging reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2019		18,887	300,097	(3,869)	94,924	159,850	569,889
Comprehensive income for the period							
Net profit/(loss) for period		-	-	-	-	386,517	386,517
- Measurement of hedging instruments				3,947		-	3,947
Total comprehensive income for the period		-	-	3,947	-	386,517	390,464
Contributions from and distributions to owners	*23*						
- Payment of dividends	*31*	-	-	-	-	(94,653)	(94,653)
- Share-based payments	*22*	-	-	-	9,658	-	9,658
- Issue of shares		85	7,010	-	-	-	7,095
Total contributions from and distributions to owners		85	7,010	-	9,658	(94,653)	(77,901)
Total equity as at Dec 31 2019		18,972	307,107	78	104,582	451,714	882,452

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

Separate statement of cash flows

For the reporting period January 1st 2019 – December 31st 2019.

PLN '000	***Note***	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Cash flows from operating activities			
Net profit/(loss) for period		386,517	(57,818)
Adjustments			
Depreciation of property, plant and equipment	*13*	13,351	7,893
Amortisation of intangible assets	*14*	5,472	5,201
Net finance income/costs	*10*	(453,664)	(38,477)
(Gain)/loss on sale of property, plant and equipment		27	(499)
Equity-settled share-based payments	*31*	9,658	8,118
Income tax	*11*	9,833	2,699
Change in investments	*16*	(1,191)	(10,314)
Change in inventories	*19*	7	149
Change in trade and other receivables	*20*	(7,752)	32,194
Change in other assets		(510)	(40)
Change in trade and other payables, excluding financial liabilities	*28*	10,933	(135,732)
Change in employee benefit obligations	*26*	2,124	1,526
Change in provisions		-	(16,768)
Income tax paid		(24,788)	(19,185)
Net cash from operating activities		(49,985)	(221,053)
Cash flows from investing activities			
Interest received		82	84
Loans		(270,608)	(40,595)
Sale of intangible assets and property, plant and equipment		2,487	1,684
Dividends received		49,537	64,568
Disposal of financial assets		503,256	624,219
Proceeds from derivative instruments		4,477	-
Purchase of intangible assets and property, plant and equipment		(12,359)	(9,350)
Acquisition of shares in subsidiaries		(117,450)	(230,192)
Repayments		36,370	38,902
Net cash from investing activities		195,791	449,321
Cash flows from financing activities			
Net proceeds from issue of shares		7,095	6,595
Redemption of debt securities		215,000	65,000
Increase in borrowings		1,114,116	769,054
Repayment of borrowings		(1,079,138)	(787,710)
Redemption of debt securities		(211,388)	(115,000)
Payments under finance lease contracts		(9,434)	(5,322)
Dividends paid		(94,653)	(94,040)
Interest paid		(82,744)	(74,611)
Net cash from financing activities		(141,146)	(236,034)
Total net cash flows		4,661	(7,765)
Cash and cash equivalents at beginning of period		9,151	16,917
Cash and cash equivalents at end of period	*21*	13,812	9,151

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

Significant accounting policies and other notes

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

1. Company details

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

Registered office
ul. Wołowska 8
51-116 Wrocław, Poland

Registration in the National Court Register
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16, 53-230 Wrocław, Poland
Date of registration: September 7th 2005
Registration number: KRS NO. 0000240829

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

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

As at December 31st 2019 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
Agnieszka Kułton,	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska,	Member of the Management Board
Michał Zasępa,	Member of the Management Board

As at December 31st 2019 and as at the date of authorisation of these financial statements for issue, the composition of the Company's Supervisory Board was as follows:

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

2. Basis of preparation

2.1. Statement of compliance

These separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on March 4th 2020.

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 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.

2.2. Basis of accounting

These financial statements have been prepared for the reporting period January 1st 2019 – December 31st 2019. The comparative data is presented as at December 31st 2018 and for the period January 1st 2018 – December 31st 2018.

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

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

2.3. Functional currency and presentation currency

The data contained in these financial statements are presented in the Polish złoty (PLN), rounded to the nearest thousand. The Polish złoty is the functional currency of the Company.

2.4. Accounting estimates and judgements

In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from those estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which an estimate is changed.

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

Item	Amount estimated		Note	Assumptions and estimate calculation
	2019 (PLN '000)	2018 (PLN '000)		
Investments in subsidiaries	2,212,258	2,143,481	15	Investments in subsidiaries are measured at cost less impairment losses. 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 the subsidiaries engaged in management of purchased debt portfolios depend primarily on the assumed consideration for collection services and cost of the collection process. 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	36,949	38,800	3.7,16	The value of a purchased debt portfolios as at the measurement date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or debtors (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio.

Item	Amount estimated		Note	Assumptions and estimate calculation
	2019 (PLN '000)	2018 (PLN '000)		
				KRUK S.A. prepares projections of recoveries from debt portfolios separately for individual markets. The projections account for, among other things, historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.
Deferred tax assets	3,877	453	18	As the Company is able to control the timing of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). Taxable temporary differences will increase taxable income in the future.
Lease liabilities and right-of-use assets	n/a	23,713	13	The implementation of IFRS 16 required making certain estimates and calculations that affected the measurement of lease liabilities and right-of-use assets. These include: • reviewing long-term lease contracts and identifying contracts covered by IFRS 16, • determining the remaining lease term for contracts concluded before January 1st 2019 (including for contracts with indefinite term or with the possibility of extension), • determining the marginal interest rates to be used to discount future cash flows, • identifying useful lives and determining amortisation rates for the right-of-use assets.

3. Significant accounting policies

3.1. Changes in 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 2019.

Implementation of IFRS 16

The Company adopted the new IFRS 16 as of its effective date. The effect of application of the classification, measurement and impairment principles determined in accordance with the requirements of the new Standard is recognised by the Company as an adjustment to the opening balance as at January 1st 2019, without adjusting the comparative periods. In early 2019, the Company completed assessment of the impact which the adoption of the Standard would have in all areas of its business.

In accordance with IFRS 16, 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 as of January 1st 2019. At the date of initial application, the amount of future lease payments was discounted using the lessee's weighted average incremental borrowing rate of 3.88%. The right-of-use assets were recognised at the same amounts as the lease liabilities due to the absence of contractual clauses that could result in creating provisions for additional charges or provisions related to the disassembly of leased facilities or items.

The Company applied 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 other expenses 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 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.

Right of use assets are 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.

As at the date of initial application of the Standard, the Company elected to adopt the grandfathering clause and not to conduct a reassessment of whether a contract contains a lease. As a consequence, the Company classified as leases falling within the scope of IFRS 16 the following lease, rental and usufruct agreements and other innominate contracts transferring the right to use an asset for an agreed period to the Company as the lessee in exchange for a payment or a series of payments,:

- lease of buildings and premises where Company entities conduct business activities,
- lease of vehicles (passenger cars) which under the previous regime did not meet the criteria to be recognised in the statement of financial position,
- rental of photocopying equipment.

The Company did not identify any other items whose classification or measurement would change as a result of the adoption of IFRS 16.

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. 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, while lease liabilities are measured at amortised cost.

The impact of implementation of IFRS 16 on individual items of the separate statement of financial position is presented below:

PLN '000	Jan 1 2019 Data after application of IFRS 16	Impact of IFRS 16	Dec 31 2018
Assets			
Cash and cash equivalents	9,151	-	9,151
Trade receivables from related entities	21,814	-	21,814
Trade receivables from other entities	2,811	-	2,811
Investments	176,905	-	176,905
Other receivables	7,223	-	7,223
Inventories	22	-	22
Property, plant and equipment	33,336	17,167	16,169
Intangible assets	16,547	-	16,547
Deferred tax asset	453	-	453
Other derivatives	1,450	-	1,450
Investments in subsidiaries	2,143,481	-	2,143,481
Other assets	4,173	-	4,173
Total assets	2,417,366	17,167	2,400,199
Equity and liabilities			
Liabilities			
Other derivatives	3,870	-	3,870
Trade and other payables	62,948	-	62,948
Employee benefit obligations and provisions	19,199	-	19,199
Income tax payable	12,295	-	12,295
Borrowings, other debt securities and leases	1,749,165	17,167	1,731,998
Total liabilities	1,847,477	17,167	1,830,310
Equity			
Total equity			
Share capital	18,887	-	18,887
Share premium	300,097	-	300,097
Cash flow hedging reserve	(3,869)	-	(3,869)
Other capital reserves	94,924	-	94,924
Retained earnings	159,850	-	159,850
Total equity	569,889	-	569,889
Total equity and liabilities	2,417,366	17,167	2,400,199

Effect on the separate statement of financial position

Finance lease liabilities	IAS 17	6,954
Off-balance-sheet liabilities under operating leases (undiscounted)	IAS 17	18,199
Total – December 31st 2018		**25,153**
Effect of discounting using the incremental borrowing rate as at	IFRS 16	(1,032)
January 1st 2019		-
Short-term lease contracts recognised as expense in the period	IFRS 16	-
Leases of low-value assets recognised as expense in the period	IFRS 16	**24,121**
Lease liabilities – January 1st 2019		*17,167*
including liabilities under IFRS 16		

	Jan 1-Dec 31 2019
Effect on separate statement of comprehensive income	
- increase in interest expense	628
- increase in depreciation and amortisation expense	3,868
Effect on separate statement of cash flows	
- increase in net operating cash flows	6,192
- decrease in net financing cash flows	(6,192)

Enhancing comparability

To improve data presentation, the Company changed the presentation of assets in the separate statement of financial position by separating investment property from the *Investments* item and disclosing the investment property as a separate item. The presentation of the data in the published separate financial statements for the year ended December 31st 2018 was adjusted to ensure comparability. Below is presented the effect of the change on the separate statement of financial position:

PLN '000

Assets	**Dec 31 2018 Published data**	**Change of presentation**	**Dec 31 2018 Data adjusted to ensure comparability**
Investments	176,905	(27,238)	149,667
Investment property	-	27,238	27,238

3.2. 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 valuation of assets and financial liabilities as at the end of the reporting period are the differences between the value at amortised cost in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the relevant mid exchange rate quoted by the 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.

3.3. 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.

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

Financial instruments were classified at the date of initial application of IFRS 9, i.e. January 1st 2018, and are reclassified after that date when an instrument is recognised or substantially modified.

Financial assets	Cash	Trade and other receivables	Investments at fair value	Investments measured at amortised cost	Loans	Loans to related parties
Valuation methodology	**Amortised cost (*)**	**Amortised cost (*)**	**Amortised cost**	**Amortised cost**	**Amortised cost**	**Amortised cost**

(*) For cash and trade and other receivables, amortised cost is the same as nominal value.

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

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

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

1. The following assets are measured at amortised cost:

   a) purchased debt portfolios,
   b) trade and other receivables,
   c) loans advanced to related parties.

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

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

2. At fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if the following conditions are met:

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

3. At fair value through profit or loss

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

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

The following is considered a change in the business model:

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

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

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

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

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

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

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

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

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

Financial assets measured at amortised cost

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets if their maturity does not exceed 12 months from the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

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

At the Company, recognition of expected losses depends on the change in the level of risk from the moment the receivable arises.

To assess whether the credit risk increase is significant, the Company compares the risk of default on a given financial asset as at the reporting date with the risk of default on that financial asset as at the date of its initial recognition, taking into consideration rational information that can be documented.

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

• significant financial difficulty of the customer,
• a breach of contract, such as default or past due event,
• probability that the borrower will enter bankruptcy or other financial reorganisation.

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

- Basket 1 – receivables in the case of which there have been no material increase in credit risk from the time of their recognition and there have been no impairment identified (no delay in repayment). The expected losses on such receivables are recognised for a time horizon of the next 12 months.
- Basket 2 – receivables in the case of which there has been a significant increase in credit risk since their recognition until balance sheet date (delay in repayment) and there has been no impairment identified. For such receivables, expected lifetime losses are recognised.
- Basket 3 – receivables for which impairment has been identified (delay in repayment over 90 days). For such receivables, expected lifetime losses are recognised.

Purchased debt portfolios

Purchased 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 purchased 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.

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred increased by any material transaction costs.

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 transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost in accordance with the requirements of IFRS 9 applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects 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 portfolio value.

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 (acquisition price plus transaction costs) increased by interest income, decreased by actual recoveries and adjusted to reflect any updates (revisions) of estimates concerning future cash flows. Consequently, the value of an asset at the reporting date is equal to the discounted value of expected cash recoveries.

Estimated cash flows from debt portfolios are divided into principal recoveries and interest determined at the discount rate. Recovered principal is recognised as a reduction of the carrying amount of the debt portfolios, while interest received is recognised as revenue earned in the period.

Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of future cash recoveries for the portfolio are disclosed as revenue earned in the period.

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 three 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 measurement method applied (at amortised cost)

3rd level of grouping – the debt portfolio purchase date.

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.

Financial assets at fair value through profit or loss

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

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

b) it is designated as such upon initial recognition.

A gain or loss on assets measured at fair value through profit or loss is recognised in profit or loss. Financial assets may be designated at fair value through profit or loss at initial recognition (fair value through profit or loss option) if such designation eliminates or significantly reduces the recognition or measurement inconsistency that would otherwise arise from the measurement of assets or liabilities or the recognition of related gains or losses in accordance with different policies (accounting mismatch).

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b) 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).

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for interest income, gain or loss on expected credit losses, as well as foreign exchange gains or losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

3.3.2. Financial liabilities other than derivative instruments

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

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

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

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

Financial liabilities are not reclassified.

The Company holds the following liabilities: borrowings, liabilities under debt securities, lease liabilities, and trade and other payables.

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.

Offsetting of financial assets and liabilities

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

Fair value for the purpose of disclosure in the financial statements

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

3.3.3. Derivative instruments and hedge accounting

Hedge accounting

To apply hedge accounting, 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 entity 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).

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.

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

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.

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 current period's profit or loss under other income or other expenses.

3.4.2. Subsequent expenditure

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

3.4.3. Depreciation

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

Depreciation expense is recognised in the current period's profit or loss, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Assets used under leases or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Company is certain that it will obtain ownership before the end of the lease. Land is not depreciated.

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

Buildings (investments in third-party facilities)	10 - 40	years
Plant and equipment	3 - 10	years
Vehicles	4 - 5	years

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. Property, plant and equipment used under lease contracts

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 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 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 other expenses in the consolidated statement of profit or loss.

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.

Right of use assets are 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.

The lease term is determined taking into account the extension and shortening options available under executed contracts if the option is likely to be exercised. 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, while lease liabilities are measured at amortised cost.

3.5. Investment property

The Company forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held for capital appreciation or to generate future rental income or income from sale of property. The property value is recognised in the statement of financial position after the Group has obtained the rights to dispose of the property i.e. once a final court decision has been issued, and is deducted from the amount of the debtor's debt. Investment property is initially measured at cost, including transaction costs. Following initial recognition, investment property is disclosed at fair value. Gains or losses relating to changes in the fair value of investment property are recognised in profit or loss of the period. Fair value measurement of such property is performed once a year by an internal appraiser. The expert valuation is adjusted by the percentage of sales realised, based on historical data.

Investment 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 profit or loss of the period.

3.6. Intangible assets

3.6.1. Recognition and measurement

Acquired intangible assets with finite useful economic lives are recognised at cost less amortisation charges and impairment losses.

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

- the production programme or technology are precisely defined, and development expenses to be incurred in connection with them are reliably estimated;
- the technical feasibility of the programme or technology has been demonstrated and appropriately documented, and based on this the 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

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

The 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

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 intangible assets under development 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 3.9.1.
- debt portfolios measured at amortised cost (for policies applied in the valuation of such portfolios, see notes 3.3.1 and 3.9.1,

3.8. 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 includes accrued interest.

3.9. Impairment losses on assets

3.9.1. 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. A financial asset is deemed to be impaired if, after initial recognition, there is objective evidence of the occurrence of an event or events that have an adverse effect on future cash flows from the asset and this effect can be reliably measured.

According to the description of the cost of recognition of losses presented in section 3.3.1, in the case of receivables and loans, objective indications of impairment include non-payment or arrears in repayment of debt by a debtor; restructuring of a debtor's debt to which the Company has agreed for economic or legal reasons arising from financial distress of the debtor and which the Company would otherwise not grant; circumstances demonstrating a high probability of bankruptcy of a debtor or issuer; disappearance of an active market in a given financial asset.

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

Recognition and reversal of impairment losses on loans are presented on a net basis in the statement of profit or loss under impairment allowance for expected credit.

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

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount and the present value of projected cash flows discounted at the original effective interest rate. 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 impaired assets. If any subsequent circumstances indicate that the criteria for impairment losses have ceased to be met, reversal of impairment losses is recognised in profit or loss for the current period.

3.9.2. Non-financial assets

Carrying amount of non-financial assets other than investment property, inventories and deferred tax assets is tested for impairment as at the end of each reporting period. If any criteria of impairment are met, the Company estimates the recoverable amount of particular assets or cash-generating units. The recoverable amounts of intangible assets with indefinite useful lives and intangible assets which are not yet fit for use are estimated at the same time each year.

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 a result of impairment of investments in subsidiaries.

3.10. 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. 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 resolution.

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

The policy applied to measure trade payables, borrowings, other debt securities and leases is described in note 3.3.2.

3.11. Employee benefits

3.11.1. Defined contribution plan

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 asset 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.

3.11.2. Short-term employee benefits

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

The Company recognises a liability 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 such amounts as a result of past service provided by the employee, and the obligation can be estimated reliably.

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

The fair 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 equity. The fair value of the plan is initially measured as at the grant date. Fair 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 fair value of the plan are disclosed as an adjustment to values previously posted in the current period. The fair value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based scheme, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the fair 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 purchase the shares corresponding to such options on the first day following the vesting period. The management stock option plans are described in note 22.

3.12. Provisions

Provisions are recognised when the Company has a present legal or constructive liability resulting from past events, which can be reliably estimated and which is likely to cause an outflow of economic benefits when discharged. The amount of provision is determined by discounting the projected future cash flows at an interest rate before tax that reflects current market estimates of the time value of money and the risks associated with the liability. The unwinding of the discount is recognised as a finance cost.

3.13. Investments in subsidiaries

Shares in subsidiaries not classified as assets held for sale are recognised at cost less any impairment losses.

For information on the policies relating to the recognition of impairment losses on investments in subsidiaries, see note 3.9.2.

Where shares in subsidiaries are sold, the difference between gain on the disposal of shares and their carrying amount is recognised in the statement of profit or loss as finance income on disposal of shares in subsidiaries.

In the case of a non-cash contribution in the form of shares, the Company consistently applies the accounting policy where the shares are measured based on the fair value, and the difference between the fair value and the carrying amount of shares disposed of is recognised in the statement of profit or loss under finance income as gain or loss on disposal of shares in subsidiaries.

3.14. Revenue

3.14.1. Revenue from debt collection

Revenue from debt collection includes revenue from debt collection services (fee-based credit management) and revenue from purchased debt portfolios.

Revenue from credit management services

Revenue from fee-based 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 defined percentage of collected amounts.

Revenue from purchased debt portfolios

The 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 (acquisition price plus transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost in accordance with regulations applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects 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 a portfolio's value resulting from changes in estimated timing and amounts of future cash recoveries for the portfolio are disclosed as revenue earned in the period.

3.14.2. Sale of other 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 sale of other services also comprises revenue from loans advanced, calculated using the effective interest rate method, net of impairment.

3.15. Lease payments

Lease payments are accounted for in accordance with IFRS 16; see note 3.1.
Minimum lease payments are apportioned between finance costs and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability.

3.16. Finance income and costs

Finance income includes interest income on funds invested by the Company (except income from purchased debt portfolios (see note 3.14)), net gain (loss) on disposal of shares in subsidiaries, net gain (loss) on retirement of equity in subsidiaries, dividend receivable, and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period on the accrual basis using the effective interest rate method. Net gain (loss) on disposal of subsidiaries and net gain (loss) on retirement of equity in subsidiaries is the difference between the fair value and the carrying amount of the shares disposed of/cancelled as at the date of the disposal/cancellation.
Dividend is accounted for in profit or loss of the period as at the date when the Company becomes entitled to receive the dividend.
Finance costs include interest on debt financing, unwinding of the discount on provisions, and impairment losses on financial assets. 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.

3.17. 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 carry forwards, 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.

3.18. 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 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.

3.19. 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.

3.20. 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 2019 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.

3.20.1. 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 2020:

Standards and Interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The amendments align and clarify the definition of 'material' and set out guidelines intended to increase the consistency of application of this concept in international financial reporting standards.	The amendments are not expected to have a material effect on the Company's financial statements.	January 1st 2020
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments	The amendments are mandatory and apply to all hedging relationships affected by uncertainty due to the reform of	The Company expects that at the time of initial application, the amendments	January 1st 2020

and IFRS 7 Financial Instruments: Disclosures	interest rate indices. The amendments introduce a temporary exemption from the application of certain hedge accounting requirements in such a way that the reform of interest rate indices does not result in hedge accounting. Key exemptions resulting from the Amendment relate to: • requirement that flows are 'highly probable' • risk components • prospective evaluation • retrospective effectiveness test (for IAS 39) • reclassification of cash flow hedge reserve. The amendments also require that entities disclose to investors additional information on hedging relationships that affect the above uncertainties.	will require additional disclosures on hedging relationships which are affected by uncertainty resulting from the reform of interest rate indices.	

3.20.2. 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
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	The amendments clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business: • the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not), • the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*
IFRS 17 *Insurance Contracts*	IFRS 17 replaces the transitional IFRS 4 Insurance Contracts introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2021

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
	investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.		
Amendments to IFRS 3 *Business Combinations*	The amendments narrow and clarify the definition of a business, and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2020

4. Reporting and geographical segments

Reportable segments

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

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

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

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

The Group's operations are divided into four segments based on the scale and place of operations:

- Poland,
- Romania,
- Other foreign markets

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

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Reportable segments

For the year ended December 31st 2019	Poland	Romania	Other foreign markets	TOTAL
Revenue	**132,247**	**37,450**	**4,979**	**174,676**
Purchased debt portfolios	6,009	32,006	1,550	**39,565**
Credit management services	107,819	-	-	**107,819**
Other products	18,420	5,444	3,429	**27,293**
Direct and indirect costs	-	-	-	**(115,553)**
Purchased debt portfolios	-	-	-	**(10,048)**
Credit management services	-	-	-	**(102,268)**
Other products	-	-	-	**(3,238)**
	-	-	-	**-**
Gross profit[1]	-	-	-	**59,123**
	-	-	-	**-**
Purchased debt portfolios	-	-	-	**29,517**
Credit management services	-	-	-	**5,551**
Other products	-	-	-	**24,055**
Administrative expenses	-	-	-	**(94,372)**
EBITDA[2]	-	-	-	**(35,249)**
Amortisation and depreciation	-	-	-	**(18,823)**
Other income/expenses	-	-	-	**(4,528)**
Finance income/costs	-	-	-	**454,950**
Profit before tax	-	-	-	**396,350**
Income tax	-	-	-	**(9,833)**
Net profit	-	-	-	**386,517**
Carrying amount of debt portfolios	6,965	28,112	1,873	**36,949**
Cash recoveries	7,099	32,521	1,794	**41,414**
For the year ended December 31st 2018				

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

	Poland	Romania	Other foreign markets	TOTAL
Revenue	**75,318**	**39,989**	**4,868**	**120,175**
Purchased debt portfolios	8,460	36,577	1,428	**46,464**
Credit management services	54,918	-	-	**54,918**
Other products	11,940	3,412	3,440	**18,792**
Direct and indirect costs				**(115,204)**
Purchased debt portfolios	-	-	-	**(10,720)**
Credit management services	-	-	-	**(101,599)**
Other products	-	-	-	**(2,885)**
Gross profit[1]				**4,970**
Purchased debt portfolios	-	-	-	**35,744**
Credit management services	-	-	-	**(46,681)**
Other products	-	-	-	**15,908**
Administrative expenses	-	-	-	**(81,751)**
EBITDA[2]	-	-	-	**(76,780)**
Amortisation and depreciation	-	-	-	**(13,073)**
Other income	-	-	-	**(6,094)**
Other expenses (unallocated)	-	-	-	-
Finance income/costs	-	-	-	**40,827**
Profit before tax	-	-	-	**(55,119)**
Income tax	-	-	-	**(2,699)**
Net profit	-	-	-	**(57,818)**
Carrying amount of debt portfolios	**7,765**	**28,917**	**2,117**	**38,800**
Cash recoveries	**7,850**	**34,943**	**1,956**	**44,749**

[1] Gross profit = operating income - operating expenses. [2] EBITDA = operating profit - amortisation/depreciation - other income - other expenses (unallocated).

5. Revenue

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Revenue from purchased debt portfolios	39,565	46,464
Gain/(loss) on sale/revaluation of property	(3,978)	(1,660)
Revenue from credit management services	107,819	54,918
Revenue from other services	30,762	19,715
Revenue from sale of merchandise and materials	508	738
	174,676	120,175

Revenue from purchased debt portfolios is measured at amortised cost, revenue from sale/revaluation of property at fair value.

Revenue from purchased debt portfolios

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Interest income	20,263	20,364
Revaluation of debt portfolios	13,066	19,436
Other income from purchased debt portfolios (*)	6,232	6,665
Foreclosure of property	4	144
	39,565	46,609

** Other income from purchased debt portfolios – deviations of actual recoveries, decreases on early recoveries in collateralised cases, costs of loyalty scheme valuation, costs of provision for overpayments, payments from original creditor.*

Revaluation of debt portfolios

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Revision of recovery projections	14,023	18,660
Change due to change in discount rate	-	-
Foreign exchange gains/(losses)	(957)	776
	13,066	19,436

The recovery forecast update is primarily based on an analysis of:

- debtors' behaviour patterns and effectiveness of the collection tools applied;
- changes in currency exchange rates against PLN (for debt portfolios purchased abroad).

Pursuant to the accounting policies applied by the Company, income and gains on financial instruments measured at amortised cost are presented as revenue from purchased debt portfolios under operating income.

Revenue from credit management services

Revenue from fee-based credit management includes commission fees ranging from 2% to 49% of collected debts. Fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main third-party client accounts for 2% of revenue from credit management services, and in the group of related entities – for 86.9% (2018: 3.7%, 89%).

6. Other income

PLN '000

	Note	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Receivables written off		799	496
Return of compensation for damage caused by motor vehicles		618	672
Other		276	635
Gain on sale of property, plant and equipment		-	499
Reversal of impairment losses on receivables	*28*	-	89
		1,693	2,391

7. Services

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Credit management services	(10,346)	(9,345)
IT services	(7,378)	(4,650)
Postal and courier services	(4,164)	(5,517)
Space rental and service charges[1]	(3,121)	(6,551)
Communications services	(2,550)	(2,333)
Consultancy services	(2,502)	(3,565)
Other auxiliary services	(1,136)	(2,837)
Repair of vehicles	(1,054)	(721)
Banking services	(1,028)	(967)
Security	(635)	(584)
Printing services	(554)	(615)
Recruitment services	(471)	(353)
Packing services	(294)	(334)
Repair and maintenance services	(184)	(132)
Marketing and management services	(177)	(141)
Transport services	(31)	(49)
Other rental	(28)	(36)
	(35,655)	(38,730)

[1] *Decrease in rental costs in 2019 resulted from the implementation of IFRS 16 Leases, which resulted in recognition of rental costs as depreciation expense of PLN 5,775 thousand and finance costs under lease liabilities of PLN 628 thousand; in the reporting period ended December 31st 2019, the item comprised service charges only.*

8. Other expenses

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Taxes and charges	(12,791)	(11,596)
Raw materials and consumables used	(5,640)	(5,300)
Staff training	(2,284)	(2,333)
Business trips	(1,802)	(1,766)
Advertising	(1,598)	(5,244)
Re-billed costs of services	(1,124)	(320)
Motor insurance	(912)	(1,067)
Entertainment expenses	(740)	(1,888)
Losses from damage caused by motor vehicles	(712)	(758)
Refund of litigation costs	(616)	-
Court fees	(514)	(477)
Other consultancy services	(493)	-
VAT on rental payments (leases and rents)	(431)	-
Non-competition	(367)	(260)
Property insurance	(257)	(254)
Membership fees	(180)	-
Impairment losses on receivables	(151)	-
Loss on sale of property, plant and equipment	(27)	-
Accumulated amortisation of receivables	(10)	(2,954)
Other	(958)	(3,064)
	(31,606)	(37,281)

9. Employee benefits expense

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Salaries and wages	(111,915)	(99,033)
Old-age and disability pension contributions (defined contribution plans)	(17,209)	(15,294)
Equity-settled cost of stock option plan	(9,658)	(8,118)
Other social security contributions	(8,945)	(5,853)
Contribution to the State Fund for the Disabled	(1,159)	(1,130)
	(148,885)	(129,428)

Salaries and wages includes a provision for retirement severance payments of PLN 504 thousand in 2019 and PLN 0 thousand in 2018.

10. Finance income and costs

Recognised as profit or loss for the period

Finance income

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Gain/(loss) on disposal of shares in subsidiaries[1]	180,802	-
Gain/(loss) on retirement of equity in subsidiaries	141,172	8,043
Gain/(loss) on impairment of subsidiaries	100,629	29,492
Dividend income	96,097	89,556
Interest income on loans advanced and receivables	13,836	5,831
Net foreign exchange losses	452	-
Interest income on bank deposits	82	84
Gain/(loss) on settlement of discount	(93)	-
	532,976	133,006

[1] Gain on disposal of shares in subsidiaries in 2019 included gain on disposal of shares in Secapital S.a.r.l of PLN 179,945 thousand, as described in note 15, as well as gain on the sale of shares in Zielona Perła of PLN 848 thousand.
Gain/(loss) on retirement of equity in subsidiaries included a PLN 68,352 thousand net gain on retirement of equity of InvestCapital and a PLN 72,820 thousand net gain on redemption of investment certificates.

Finance costs

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Interest expense on financial liabilities measured at amortised cost	(82,268)	(86,015)
Net foreign exchange losses	-	(9,506)
Interest income/expense on hedging instruments	1,872	1,892
Measurement of derivative instruments	2,369	1,450
	(78,027)	(92,179)

Gain or loss on revaluation of investments and loans advanced to subsidiaries is recognised in on a net basis in finance income or costs under revaluation of investments.

The finance income and costs shown above include interest income and expenses relating to financial assets (liabilities) other than those at fair value through profit or loss:

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Total interest income on financial assets	13,917	5,915
Total interest expense on financial liabilities	(80,395)	(84,123)

11. Income tax

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

PLN '000	***Note***	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Income tax (current portion recognised in profit or loss)			
Income tax[1]		(13,257)	(17,122)
Income tax (deferred portion recognised in profit or loss)			
Temporary differences/reversal of temporary differences	*18*	3,424	14,423
Income tax recognised in profit or loss		(9,833)	(2,699)
Income tax (deferred portion recognised in other comprehensive income)			
Temporary differences/reversal of temporary differences	*18*		
Income tax recognised in other comprehensive income		-	-
		(9,833)	(2,699)

[1]Income tax disclosed in these financial statements includes income tax, withholding tax and CFC tax.

Reconciliation of effective tax rate

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Profit/(loss) before tax	396,350	(55,119)
Income tax recognised in profit or loss	(9,833)	(2,699)
Profit/(loss) before tax for the period (at 19% tax rate)	396,350	(55,119)
Tax calculated at the tax rate applicable in Poland (19%)	(75,306)	10,473
Effect of non-deductible expenses	65,474	(13,172)
of which:		
Non-taxable income	179,964	-
Non-deductible expenses	(114,490)	-
	(9,833)	(2,699)

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

As at Dec 31 2019

PLN '000

	Note	Dec 31 2019	Dec 31 2018
Assets			
Non-current assets			
Property, plant and equipment	*13*	34,944	16,169
Intangible assets	*14*	15,084	16,547
Other derivatives	*25*	4,219	1,450
Investments in subsidiaries	*15*	2,212,258	2,143,481
Investments in loans		310,598	-
Deferred tax asset	*18*	3,877	453
Total non-current assets		2,580,981	2,178,100
Current assets			
Inventories	*19*	15	22
Investments in debt portfolios and loans	*16*	50,946	149,667
Investment property	*17*	30,279	27,238
Trade receivables from related entities	*20*	28,198	21,814
Trade receivables from other entities	*20*	3,365	2,811
Other receivables	*20*	54,597	7,223
Cash and cash equivalents	*21*	13,812	9,151
Other assets		4,683	4,173
Total current assets		185,896	222,099
Total assets		2,766,876	2,400,199
Equity and liabilities			
Equity			
Share capital	*22*	18,972	18,887
Share premium		307,107	300,097
Hedging reserve		78	(3,869)
Other capital reserves		104,582	94,924
Retained earnings		451,714	159,850
Total equity		882,452	569,889
Non-current liabilities			
Borrowings, other debt securities and leases	*24*	1,593,983	1,458,736
Other derivatives	*25*	3,924	3,870
Total non-current liabilities		1,597,907	1,462,606
Current liabilities			
Borrowings, other debt securities and leases	*24*	190,623	273,262
Trade and other payables	*28*	73,882	62,948
Income tax payable		690	12,295
Employee benefit obligations and provisions	*26*	21,323	19,199
Total current liabilities		286,518	367,704
Total liabilities		1,884,424	1,830,310
Total equity and liabilities		2,766,876	2,400,199

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

13. Property, plant and equipment

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross carrying amount of property, plant and equipment						
Gross value as at Jan 1 2018	746	20,319	20,099	742	-	41,906
Purchase	5	2,289	3,038	147	390	5,869
Sale/ liquidation	(1)	(1,853)	(3,568)	(272)	-	(5,693)
Gross value as at Dec 31 2018	750	20,755	19,569	617	390	42,081

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross carrying amount as at Dec 31 2018	750	20,755	19,569	617	390	42,081
Impact of IFRS 16	16,748	418	-	-	-	17,167
Gross carrying amount as at Jan 1 2019	17,498	21,174	19,569	617	390	59,248
Purchase	4,678	5,893	4,752	-	1,650	16,972
Sale/ liquidation	(68)	(1,111)	(533)	(16)	(1,856)	(3,585)
Gross carrying amount as at Dec 31 2019	22,108	25,955	23,787	601	184	72,635

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Depreciation and impairment losses						
Accumulated depreciation and impairment losses as at Jan 1 2018	(139)	(12,968)	(9,199)	(537)	-	(22,843)
Depreciation	(37)	(3,395)	(4,408)	(53)	-	(7,893)
Decrease resulting from sale/ liquidation	1	1,847	2,723	253	-	4,823
Accumulated depreciation and impairment losses as at Dec 31 2018	(175)	(14,516)	(10,885)	(337)	-	(25,913)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation and impairment losses as at Dec 31 2018	(175)	(14,516)	(10,885)	(337)	-	(25,913)
Impact of IFRS 16	-	-	-	-	-	-
Accumulated depreciation and impairment losses as at Jan 1 2019	(175)	(14,516)	(10,885)	(337)	-	(25,913)
Depreciation	(5,644)	(3,890)	(3,766)	(51)	-	(13,351)
Decrease resulting from sale/ liquidation	17	1,121	419	16		1,573
Accumulated depreciation and impairment losses as at Dec 31 2019	(5,802)	(17,285)	(14,231)	(372)	-	(37,690)

PLN '000	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 2018	607	7,351	10,900	205	-	19,063
As at Dec 31 2018	575	6,239	8,684	279	390	16,169
Impact of IFRS 16	16,748	418	-	-	-	17,167
As at Jan 1 2019	17,323	6,658	8,684	280	390	33,335
As at Dec 31 2019	16,306	8,670	9,556	229	184	34,944

Right of use

PLN '000	**Dec 31 2019**
Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at January 1st 2019	
Buildings and structures	16,748
Plant and equipment	418
Vehicles	8,681
	25,847
Cost of amortisation of right-of-use assets, by class of underlying asset	
Buildings and structures	(5,590)
Plant and equipment	(167)
Vehicles	(3,778)
	(9,535)
Increase in right-of-use assets	8,995
Decrease in right-of-use assets	(171)
Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at December 31st 2019	
Buildings and structures	15,333
Plant and equipment	251
Vehicles	9,553
	25,136
Interest expense relating to lease liabilities	628
Cost relating to variable lease payments not included in the measurement of lease liabilities	33
Total cash outflow in connection with leases	9,434

14. Intangible assets

PLN '000	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 2018	30,547	369	-	-	30,916
Produced internally	5,714	-	-	-	5,714
Other increase	743	-	425	-	1,168
Decrease	(2,339)	-	-	-	(2,339)
Gross carrying amount as at Dec 31 2018	34,664	369	425	-	35,458
Gross carrying amount as at Jan 1 2019	34,664	369	425	-	35,458
Produced internally	2,457	-	-		2,457
Other increase	1,077	-	-	976	2,053
Decrease	(7,904)	-	(356)	-	(8,260)
Gross carrying amount as at Dec 31 2019	30,294	369	69	976	31,708

PLN '000	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation and impairment losses					
Accumulated amortisation and impairment losses as at Jan 1 2018	(15,364)	(369)	-	-	(15,733)
Amortisation	(5,201)	-	-	-	(5,201)
Decrease	2,023	-	-	-	2,023
Accumulated amortisation and impairment losses as at Dec 31 2018	(18,542)	(369)	-	-	(18,911)
Accumulated amortisation and impairment losses as at Jan 1 2019	(18,542)	(369)	-	-	(18,911)
Amortisation	(5,472)	-	-	-	(5,472)
Decrease	7,759	-	-	-	7,759
Accumulated amortisation and impairment losses as at Dec 31 2019	(16,255)	(369)	-	-	(16,624)

PLN '000	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2018	15,183	-	-	-	15,183
As at Dec 31 2018	16,122	-	425	-	16,547
As at Jan 1 2019	16,122	-	425	-	16,547
As at Dec 31 2019	14,039	-	69	976	15,084

15. Investments in subsidiaries

PLN '000	Dec 31 2019	Dec 31 2018
Investments in subsidiaries		
Gross value of shares in subsidiaries	2,328,164	2,353,102
Impairment loss on shares	(115,905)	(209,621)
Net value of shares in subsidiaries	2,212,258	2,143,481

PLN '000	Country	Gross value of investment	Impairment loss	Gross value of investment	Impairment loss
		Dec 31 2019		Dec 31 2018	
SeCapital S.à r.l.[1]	Luxembourg	77,770	-	171,942	-
ERIF Business Solutions Sp. z o.o.	Poland	1,402	(1,302)	1,402	(1,302)
SeCapital Polska Sp. z o.o.	Poland	50	(50)	50	(50)
ERIF Biuro Informacji Gospodarczej S.A.	Poland	3,104	-	3,104	-
Novum Finance Sp. z o.o.	Poland	2,100	-	2,100	-
KRUK Romania S.r.l.	Romania	79,732	-	79,732	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	Poland	300	-	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	28,500	-	18,500	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	142,940	(48,683)	102,578	(86,697)
Prokura NS FIZ[1]	Poland	591,401	-	731,983	-
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	-	-	5	(22)
InvestCapital Ltd[1]	Malta	847,154	-	730,661	-
RoCapital IFN S.A.[1]	Romania	13,888	(6,258)	13,888	(3,403)
Kruk Deutschland GmbH	Germany	57,365	(45,642)	65,327	(65,327)
KRUK Italia S.r.l	Italy	145,649	-	97,599	(50,703)
ItaCapital S.r.l	Italy	2,191	-	1,766	-
KRUK Espana S.L.	Spain	103,687	-	98,560	-
ProsperoCapital S.a.r.l. [2]	Luxembourg	655	(22)	649	-
Presco Investments S.a.r.l.	Luxembourg	198,294	-	198,294	-
P.R.E.S.C.O INVESTMENT I NS FIZ [1]	Poland	-	-	-	-
Elleffe Capital S.r.l.[1]	Italy	-	-	-	-
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	9,720	-	13,991	-
Corbul S.r.l[3]	Romania	-	-	-	-
Zielona Perła Sp. z o.o.[4]	Poland	-	-	6,454	(2,117)
AgeCredit S.r.l.	Italy	21,428	(13,112)	14,216	-
Wonga.pl Sp. z o.o.	Poland	835	(835)	-	-
		2,328,164	**(115,905)**	**2,353,102**	**(209,621)**

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

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

[3] The Parent controls the company through a personal link.

[4] On July 15th 2019, a transaction to sell the subsidiary Zielona Perła Sp. z o.o. was excecuted.

In 2019, impairment losses on KRUK Italia of PLN 50,703 thousand, KRUK Česká a Slovenská republika s.r.o. of PLN 38,013 thousand and KRUK Deutschland GmbH of PLN 19,685 thousand were reversed.

The reversal at KRUK Italia of PLN 50,703 thousand resulted from a change in estimated future cash flows due to an increase in expected revenue. In the case of KRUK Česká a Slovenská republika s.r.o. reversal of PLN 38,013 thousand resulted from a change in estimated future cash flows due to the restructuring in the second half of 2019. The reversal at KRUK Deutschland GmbH of PLN 19,685 thousand resulted from a change in estimated future cash flows due to completion of the restructuring of the company started in 2018.

In 2019, the Company recognised impairment losses on Agecredit S.r.l. of PLN 13,112 thousand, on ROCAPITAL IFN S.A. of PLN 2,855 thousand and on Wonga.pl Sp. z o.o. of PLN 835 thousand.

The recognition of a PLN 13,112 thousand impairment loss on Agecredit S.r.l resulted from a change in the estimated future cash flows due to lower profitability of the subsidiary.

The recognition of a PLN 2,855 thousand impairment loss on ROCAPITAL IFN S.A. resulted from a change in the estimated future cash flows due to lower profitability of the consumer loan business in Romania.

The recognition of a PLN 835 thousand impairment loss on WONGA. PL sp. z o.o. resulted from a change in the estimated future cash flows in connection with the decisions published by the UOKiK in January–February 2020 in proceedings against financial institutions, the UOKiK's position on the straight-line method of reimbursing early repayment fees, and the high probability of enactment of the Anti-Usury Bill which provides for a significant lowering of the caps on non-interest fees charged on loans.

PLN '000	Country	Dec 31 2019	Dec 31 2018
SeCapital S.à r.l.[1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
SeCapital Polska Sp. z o.o.	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN P.Krupa 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. [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	-	-
Zielona Perła Sp. z o.o. [4]	Poland	100%	100%
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.[4]	Poland	100%	-

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

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

[3] The Parent controls the company through a personal link.

[4] On July 15th 2019, a transaction to sell the subsidiary Zielona Perła Sp. z o.o. was executed.

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2019 and for the period from January 1st to December 31st 2019.

In 2019, the Parent reduced the contributions to the share capital of the subsidiary KRUK Deustchland Gmbh by PLN 7,962 thousand.

In 2019, the Parent made additional contributions to the equity of the subsidiary KRUK Italy S.r.l of PLN 48,050 thousand.

In 2019, the Parent made additional contributions to the equity of the subsidiary KRUK Espania S.r.l of PLN 5,127 thousand.

In 2019, the Parent increased the share capital of InvestCapital Ltd. by PLN 116,493 thousand.

In 2019, the Parent redeemed the certificates at PROKURA NS FIZ for PLN 140,582 thousand.

In 2019, KRUK S.A. made a non-cash contribution to InvestCapital Ltd. in the form of 85,611 shares in Secapital S.a.r.l. in exchange for 2,741,264 shares in that company. As a result of the transaction, the value of shares held in InvestCapital increased by PLN 274,126 thousand and the value of shares held in Secapital S.a.r.l. decreased by PLN 94,172 thousand. The difference between the fair value and the carrying amount of shares in Secapital S.a.r.l, of PLN 179,954 thousand, was recognised as gain or loss on disposal of shares in subsidiaries in the statement of profit or loss.

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 company (CGU), estimated based on a financial forecast prepared by the company for a period of five years.

The cash flows were discounted with the weighted average cost of capital for the debt collection industry (weighted average cost of capital as at December 31st 2019: 6.82%). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period of 1.28%-3.23%, which vary by country.

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. 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.

16. Investments measured at amortised cost

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Investments measured at amortised cost		
Investments in debt portfolios	36,949	38,800
Loans to related parties	324,595	110,867
	361,544	149,667

Debt portfolios

For the rules followed in the valuation of purchased debt portfolios, see note 3.3.1. Purchased debt portfolios are divided into the following main categories:

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Purchased debt portfolios		
Unsecured portfolios	36,545	38,800
Secured portfolios	405	-
	36,949	38,800

The following assumptions were made in the valuation of debt portfolios:

		Dec 31 2019	Dec 31 2018
Discount rate			
	- risk premium*	23.65% - 170.19%	19.67% - 170.19%
Period for which recoveries have been estimated		Jan 2020−Dec 2032	Jan 2019−Sep 2031
Undiscounted value of future recoveries		80,919	83,275

** Applicable to 99% of debt portfolios.*

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

PLN '000	Dec 31 2019	Dec 31 2018
Period		
Up to 12 months	29,942	31,652
From 1 to 2 years	20,192	20,840
From 2 to 5 years	24,914	25,898
Over 5 years	5,872	4,885
	80,919	83,275

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

- risk premium,
- the period for which cash flows are estimated − an extension of this period, with the amount of recoveries unchanged, reduces the value of debt portfolios;
- the value of expected future cash flows estimated using the current data and debt collection tools – a growth in the value of expected future cash flows means an increase in the value of debt portfolios.

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

PLN '000	
Value of purchased debt portfolios as at Dec 31 2017	**34,474**
Impact of changes in accounting policies following application of IFRS 9	2,226
Carrying amount of purchased debt portfolios as at Jan 1 2018	36,700
Cash recoveries	(44,653)
Revenue from purchased debt portfolios (interest and revaluation)	46,609
Foreclosure of property	144
Carrying amount of purchased debt portfolios as at Dec 31 2018	**38,800**
Carrying amount of purchased debt portfolios as at Jan 1 2019	**38,800**
Cash recoveries	(41,415)
Revenue from purchased debt portfolios (interest and revaluation)	39,565
Carrying amount of purchased debt portfolios as at Dec 31 2019	**36,949**

Sensitivity analysis – revision of projections

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in recoveries by 100 bps	**decrease in recoveries by 100 bps**	**increase in recoveries by 100 bps**	**decrease in recoveries by 100 bps**
Dec 31 2019				
Investments in debt portfolios	303	(303)		
Dec 31 2018				
Investments in debt portfolios	483	(483)	-	-

Sensitivity analysis – time horizon

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one year	**shortening by one year**	**extension by one year**	**shortening by one year**
Dec 31 2019				
Investments in debt portfolios	5	(154)	-	-
Dec 31 2018				
Investments in debt portfolios	5	(13)	-	-

The sensitivity analysis assumes extension or shortening of the projection period and a simultaneous increase or decrease in recovery projections (for one-year extension projected recoveries increased by PLN 5 thousand, while for one-year shortening projected recoveries decreased by PLN 154 thousand; 2018: PLN 5 thousand and PLN 13 thousand, respectively).

Loans to related parties

As at December 31st 2019, the gross carrying amount of loans advanced to related parties was PLN 328,358 thousand, and the loss allowance was PLN 3,763 thousand (December 31st 2018: PLN 123,661 thousand and PLN 10,855 thousand, respectively).

The increase in the amount of loans advanced to related parties was attributable to the acquisition of Wonga in April 2019; the Company provided financing of PLN 203,347 thousand to the subsidiary.

In 2019, a PLN 2,430 thousand impairment loss was recognised on loans advanced to Wonga Sp. z o.o. (the result of a change in the estimated future cash flows in connection with the decisions published by the UOKiK in January–February 2020 in proceedings against financial institutions, the UOKiK's position on the straight-line method of reimbursing early repayment fees, and the high probability of enactment of the Anti-Usury Bill which provides for a significant lowering of the caps on non-interest fees charged on loans); and a PLN 11,460 impairment loss on Kruk Ceska and Slovenska S.r.l was reversed (the result of a change in estimated future cash flows due to the restructuring in the second half of 2019).

For information on the Company's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses on loans, see note 29.

17. Investment property

As part of its operating activities, KRUK S.A. forecloses properties used as collateral for acquired debt. A portion of recoveries is derived from the sale of such properties on the open market. Investment property is measured at fair value.

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Investment property	30,279	27,238
	30,279	27,238

Investment property

Carrying amount of property held as at Jan 1 2018	**23,869**
Value of foreclosed property	17,240
Proceeds from sale of property	(12,118)
Income from sale of property	(1,753)
Carrying amount of property held as at Dec 31 2018	**27,238**
Carrying amount of property held as at Jan 1 2019	**27,238**
Value of foreclosed property	21,397
Proceeds from sale of property	(17,957)
Income from sale of property	(398)
Carrying amount of property held as at Dec 31 2019	**30,279**

18. 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 '000	**Assets**		**Provisions**		**Net carrying amount**	
	Dec 31 2019	**Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**
Property, plant and equipment	4,513	1,321	(4,775)	(1,574)	(263)	(253)
Intangible assets	-	-	(2,263)	(2,627)	(2,263)	(2,627)
Trade and other receivables	-	-	(243)	(142)	(243)	(142)
Borrowings and other debt instruments	18,496	10,684		-	18,496	10,684
Employee benefit obligations	2,342	2,001	-	-	2,342	2,001
Provisions and liabilities	112	2,265		-	112	2,265
Investments in debt portfolios	-	-	(7,108)	(6,282)	(7,108)	(6,282)
Investments in subsidiaries	-	-	(7,197)	(5,194)	(7,197)	(5,194)
Hedge derivatives		-		-	-	-
Deferred tax assets/liabilities	25,463	16,272	(21,586)	(15,819)	3,877	453
Deferred tax assets offset against liabilities	(21,586)	(15,819)	21,586	15,819	-	-
Deferred tax assets/liabilities in the statement of financial position	3,877	453	-	-	3,877	453

The Company benefits from the regulation provided in IAS 12.39 and does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future and it is probable that the temporary differences will not reverse in the foreseeable future.

Change in temporary differences in the period

PLN '000	As at Jan 1 2018	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2018	As at Jan 1 2019	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2019
Property, plant and equipment	(294)	41	(253)	(253)	(10)	(263)
Intangible assets	(2,395)	(232)	(2,627)	(2,627)	364	(2,263)
Trade and other receivables	(289)	147	(142)	(142)	(101)	(243)
Borrowings and other debt instruments	2,005	8,679	10,684	10,684	7,812	18,496
Employee benefit obligations	1,962	39	2,001	2,001	341	2,342
Provisions and liabilities	122	2,143	2,265	2,265	(2,153)	112
Investments in debt portfolios	(4,322)	(1,960)	(6,282)	(6,282)	(826)	(7,108)
Investments in subsidiaries	(10,760)	5,566	(5,194)	(5,194)	(2,003)	(7,197)
	(13,971)	14,424	453	453	3,425	3,877

PLN '000	As at Jan 1 2018	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2018	As at Jan 1 2019	Change in temporary differences recognised in other comprehensive income	As at Dec 31 2019
Hedge derivatives	(1,380)	1,380	-	-	-	-
	(1,380)	1,380	-	-	-	-

19. Inventories

PLN '000	Dec 31 2019	Dec 31 2018
Materials	15	52
Prepaid deliveries	-	(30)
	15	22

In the reporting period ended December 31st 2019, the Company did not recognise any write-downs on inventories.

20. Trade and other receivables

PLN '000	Dec 31 2019	Dec 31 2018
Trade receivables from related entities	28,198	21,814
Trade receivables from non-related entities	3,365	2,811
	31,563	24,625

PLN '000	Dec 31 2019	Dec 31 2018
Other receivables from related entities	49,565	1,486
Other receivables from non-related entities	5,032	5,737
	54,597	7,223

For information on the Company's exposure to credit and currency risk, as well as impairment losses on receivables, see note 29.

21. Cash and cash equivalents

PLN '000	Dec 31 2019	Dec 31 2018
Cash in hand	24	19
Cash in current accounts	13,789	9,132
	13,812	9,151

For information on the Company's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see note 29.

22. Equity

Share capital

'000	Ordinary shares Jan 1-Dec 31 2019	Ordinary shares Jan 1-Dec 31 2018
Number of shares as at Jan 1	18,887	18,808
Issue of shares	85	79
Number of fully-paid shares at end of period	18,972	18,887

Shareholding structure as at December 31st 2019

	Number of shares	Par value of shares (thousand)	Ownership interest (%)
Shareholder			
Piotr Krupa	1,886,666	1,887	9.94%
NN PTE[1]	2,055,000	2,055	10.83%
Aviva OFE	1,740,000	1,740	9.17%
PZU OFE	1,056,178	1,056	5.57%
Other members of the Management Board	217,705	218	1.15%
Other shareholders	12,016,262	12,016	63.34%
	18,971,811	18,972	100%

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

As at December 31st 2019, the registered share capital was divided into 18,972 thousand ordinary shares (December 31st 2018: 18,887 thousand).

Other capital reserves

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

Share-based payments

Incentive Scheme for 2015−2019

On May 28th 2014, the Annual General Meeting of KRUK S.A. passed Resolution No. 26/2014 on setting the rules of an incentive scheme for 2015–2019, 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 (the "2015−2019 Incentive Scheme"). The 2015−2019 Incentive Scheme is addressed to the key management personnel of KRUK S.A. and the other Group companies.

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011−2014 Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015.

Under the 2015−2019 Incentive Scheme, eligible persons have the right to acquire Series F Company shares on preferential terms set forth in the resolution. The eligible persons comprise members of the Management Board, including the President, as well as Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary, or in other legal relationship under which they provided services to the Parent or its subsidiary, for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants is made.

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

Subscription warrants will be issued in five tranches, one for each year of the reference period, i.e. for the financial years 2015–2019.

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS (calculated on the basis of the Group's consolidated financial statements) increases at a CAGR of no less than 13% relative to the base year.

Under the Scheme, the Company may finance purchase of Series F shares by the eligible persons on the terms defined in the resolution.

Subscription warrants may be inherited, but may not be encumbered and are not transferable.

Tranche 1

On June 9th 2016, the Supervisory Board declared, by way of resolution, that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 1 for 2015 had been satisfied.
On June 17th 2016, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015−2019 Incentive Scheme.
On this basis, on June 22nd 2016, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 1 subscription warrants. As a result, 86,435 subscription warrants were delivered to the eligible persons on July 1st 2016.

On August 27th 2016, the Management Board passed a resolution determining the list of
Management Board members eligible to acquire Tranche 1 Subscription Warrants for 2015
under the 2015−2019 Scheme, which was later amended by the Management Board resolution of October 27th 2016. On this
on this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 subscription warrants under the 2015−2019 Scheme.
Manager for 2015 − 2019. On October 27th 2016, 20,000 subscription warrants were delivered to the eligible persons,
members of the Management Board.
By the issue date of this report,
82,574 Tranche 1 warrants were converted into new Series F shares. Thus, 23,861 Tranche 1 warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 13,500 of those warrants are held by Management Board members.

Tranche 2

By resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 2 for 2016 had been satisfied.
On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015−2019 Incentive Scheme. On this basis, on July 4th 2017, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 2 Subscription Warrants. As a result, 91,467 subscription warrants were delivered to the eligible persons on July 7th 2017.
On August 10th 2017, the Management Board passed a resolution determining the list of
Management Board members eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015−2019 Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 2 subscription warrants under the 2015−2019 Scheme. On August 22nd 2017, 50,480 subscription warrants were delivered to the eligible Management Board members.
By the issue date of this report, 94,308 Tranche 2 warrants were converted into new Series F shares. 47,639 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 30,650 of those warrants are held by Management Board members.

Tranche 3

In a resolution of May 11th 2018 the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 3 for 2017 had been satisfied.
On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Incentive Scheme. On this basis, on June 20th 2018, the Management Board invited eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to the eligible persons on July 3rd 2018.
On September 11th 2018, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015−2019 Incentive Scheme. On September 17th 2018, 54,344 subscription warrants were delivered to eligible Management Board members.
By the issue date of this report, 50,713 Tranche 3 warrants were converted into new Series F shares. 89,484 Tranche 3 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 54,344 of those warrants are held by members of the Management Board.

Tranche 4

By resolution dated July 15th 2019, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 4 for 2018 had been satisfied.
On July 16th 2019, the Management Board passed a resolution containing the list of Management Board members eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme. On July 22nd 2019, the Supervisory Board passed a resolution to approve the Management Board's Resolution No. 235/2019 containing the list of Management Board members eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015−2019 Incentive Scheme. On September 10th 2019, 89,768 Subscription Warrants were delivered to eligible Management Board members.
On July 24th 2019, the Management Board passed a resolution containing the list of persons who are not Management Board members and are eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme. On this basis, on July 25th 2019, the Management Board invited eligible persons other than Management Board members to acquire Tranche 4 subscription warrants. As a result, 115,528 subscription warrants were delivered to the eligible persons on August 27th 2019.

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For information on costs of the Incentive Scheme, see note 31.

	Dec 31 2019	Dec 31 2018
Number of options		
Number of options priced under the 2015−2019 Incentive Scheme at the beginning of the reporting period*:	818,208	784,229
Number of options priced under the 2015−2019 Incentive Scheme during the reporting period*:	19,768	33,979
Number of options priced under the 2015−2019 Incentive Scheme at the end of the reporting period*:	837,976	818,208
Number of options forfeited under the 2015−2019 Incentive Scheme during the reporting period**:	8,294	19,308
Number of options exercised under the 2015−2019 Incentive Scheme during the reporting period:	84,950	78,961
Number of options exercisable under the 2015−2019 Incentive Scheme at the end of the reporting period:	160,984	105,737
Issue price of options in the 2015−2019 Incentive Scheme	**83.52**	**83.52**

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

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

23. Earnings per share

Basic earnings per share

As at December 31st 2019, basic earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN 386,517 thousand (2018: PLN -57,818 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,916 thousand (2018: 18,843 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

Separate net profit attributable to owners of the Company

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Net profit for the period	386,517	(57,818)
Net profit attributable to owners of the Company	386,517	(57,818)

Weighted average number of ordinary shares

'000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Number of ordinary shares as at Jan 1	18,887	18,808
Effect of cancellation and issue of shares	29	35
Weighted average number of ordinary shares in the period ended Dec 31	18,916	18,843
PLN		
Earnings per share	20.43	(3.07)

Consolidated net profit attributable to owners of the Parent

As at December 31st 2019, basic consolidated earnings per share were calculated based on consolidated net profit attributable to owners of the Parent (holding ordinary shares) of PLN 276,390 thousand (2018: PLN 330,016 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,916 thousand (2018: 18,843 thousand). The amounts were determined as follows:

Consolidated net profit attributable to owners of the Parent

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Separate net profit attributable to owners of the Parent (basic)	276,390	330,016
Separate net profit attributable to owners of the Parent (diluted)	276,390	330,016

Weighted average number of ordinary shares

'000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Number of ordinary shares as at Jan 1	18,887	18,808
Effect of cancellation and issue of shares	29	35
Weighted average number of ordinary shares in the period ended Dec 31	18,916	18,843
PLN		
Earnings per share	14.61	17.51

Dividend per share paid

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Dividend paid from profit and retained earnings	94,653	94,040
PLN		
Dividend per share	5.00	5.00

Diluted separate earnings per share

As at December 31st 2019, diluted earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN 276,390 thousand (2018: PLN -57,818 thousand) and the diluted weighted average number of shares in the period covered by the financial statements of 19,326 thousand (2018: 19,308 thousand). The amounts were determined as follows:

'000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Number of ordinary shares as at Jan 1	18,916	18,843
Effect of cancellation and issue of shares	410	465
Weighted average number of ordinary shares in the period ended Dec 31	19,326	19,308
PLN		
Earnings per share	20.00	(2.99)

Diluted consolidated earnings per share

As at December 31st 2019, diluted earnings per share were determined based on net profit attributable to ordinary shareholders of the Parent of PLN 276,390 thousand and the diluted weighted average number of shares in the period covered by the financial statements of PLN 19,326 thousand. The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Weighted average number of ordinary shares in the period ended Dec 31	18,916	18,843
Effect of issue of unregistered shares not subscribed for	410	465
Weighted average number of ordinary shares in the period ended Dec 31 (diluted)	19,326	19,308
PLN		
Earnings per share	14.30	17.09

24. Borrowings, other debt securities and leases

The note contains information on the Company's borrowings, other debt securities and leases. For information on the Company's exposure to currency, liquidity and interest rate risks, see note 28.

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

PLN '000	Dec 31 2019	Dec 31 2018
Non-current liabilities		
Secured borrowings	314,231	315,341
Liabilities under debt securities (unsecured)	1,267,601	1,142,905
Lease liabilities	12,151	490
	1,593,983	1,458,736

Current liabilities		
Short-term portion of secured borrowings	85,486	49,832
Liabilities under debt securities (unsecured)	93,575	216,966
Short-term portion of lease liabilities	11,562	6,464
	190,623	273,262

Liabilities repayment schedule

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**Dec 31 2019**	**Dec 31 2018**
Borrowings secured with the Company's assets	EUR/PLN	1M WIBOR + margin of 1.0-2pp 3M WIBOR + margin of 2pp 1M EURIBOR + margin of 2.2-2.4pp 3M EURIBOR + margin of 2.4pp	2024	399,717	365,173
Liabilities under debt securities, (unsecured)	PLN	3M WIBOR + margin of 3.0-4.0pp	2023	1,361,175	1,359,871
Lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.6-4pp	2022	23,713	6,954
				1,784,605	1,731,998

Security over assets

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	80,605	165,346
Property, plant and equipment used under lease contracts	9,553	8,681
	90,158	174,027

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

25. Derivatives

Derivatives designated for hedge accounting

Interest rate risk hedges

The Company's exposure to interest rate risk arises mainly from borrowings and debt securities issued (notes 24 and 29.5).

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

The interest rate risk management policy covers the following:

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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Currency risk hedges

The Company's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (note 29.4).
The currency risk management policy outlines:

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

In 2019, the Company took steps to hedge currency risk arising from cash flows from foreign subsidiaries by entering into hedging transactions. The Company's objective is to reduce the effect of exchange differences on cash flows from subsidiaries. Transactions entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

Transaction date	Settlement date	Amount in EUR	Value in PLN:
2019-02-28	2019-03-29	- 65,000,000	280,325,500
2019-03-29	2019-04-30	- 60,000,000	258,462,000
2019-04-30	2019-05-31	- 82,000,000	351,853,800
2019-05-31	2019-06-28	- 60,000,000	257,496,000
2019-05-31	2019-06-28	- 23,000,000	98,573,400
2019-06-28	2019-07-31	- 21,000,000	89,434,800
2019-06-28	2019-07-31	- 60,000,000	255,372,000
2019-07-31	2019-08-30	- 55,000,000	236,434,000
2019-07-31	2019-08-30	- 21,000,000	90,241,200
2019-08-30	2019-09-30	- 32,000,000	140,409,600
2019-08-30	2019-09-30	- 31,000,000	135,987,700
2019-09-30	2019-10-31	- 29,000,000	127,104,100
2019-09-30	2019-10-31	- 30,000,000	131,383,500
2019-10-31	2019-11-29	- 30,000,000	128,083,500
2019-10-31	2019-11-29	- 29,000,000	123,757,500
2019-11-29	2019-12-31	- 30,000,000	129,937,500
2019-11-29	2019-12-31	- 25,000,000	108,310,000

As at December 31st 2019, the Group companies did not carry any unsettled forward contracts. The impact of counterparty credit risk on the fair value of the currency forward contracts may be the source of hedge ineffectiveness, as the credit risk is not reflected in the fair value of the hedged item.

Amounts related to items designated as hedging instruments

PLN '000

	Dec 31 2019									
	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**	**Type of security**
Instrument type:										
IRS	-	3,924	PLN 275,000	3,924	-	3,870	PLN 200,000	3,870	Other derivatives	Cash flow hedges
IRS	420	-	PLN 255,000	420	-	-	-	-	Other derivatives	Cash flow hedges
FORWARD	-	-	-	4,477	-	-	-	-	Other derivatives	Cash flow hedges
	420	**3,924**	-	**8,821**	**-**	**3,870**	-	**3,870**		

PLN '000

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

	Nominal value as at Dec 31 2018				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	-	-	-	(200,000)	-
floating payment PLN	-	-	-	200,000	-

PLN '000

Disclosure of the hedged item

	Nominal amount of the hedged item	**Change in the fair value of the hedged item**	**Reserve for measurement of continuing hedges**	**Reserve (unsettled) for measurement of discontinued hedges**
Cash flow hedges	530,000	3,525	(3,525)	-
Cash flow hedges	-	4,477	-	3,603

PLN '000	Jan 1–Dec 31 2019		
Cash flow hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of future cash flows (currency risk)**	**Total hedge reserve**
Hedge reserve at beginning of the period	(3,869)	-	(3,869)
Measurement of instruments charged to capital reserves	(1,216)	4,477	3,261
Amount reclassified to profit or loss during the period	1,560	(874)	686
- Interest income	1,560	-	1,560
- Reclassification of exchange differences	-	(874)	(874)
Hedge reserve at end of the period	(3,525)	3,603	78

Other derivative instruments not designated for hedge accounting

In 2017, the Company executed the derivative transactions described below.

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

Contract 1: The Company pays at a fixed rate of 3.06%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).

Contract 2: The Company pays at a fixed rate of 2.97%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

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

The Company expects cash flows to be generated and to have an effect on its results until 2021.

In 2018, due to the ineffectiveness of the hedging relationship, the valuation was written off through profit or loss.

26. Employee benefit obligations and provisions

PLN '000	Dec 31 2019	Dec 31 2018
Salaries and wages payable	6,868	6,352
Social benefit obligations	6,391	5,939
Personal income tax	1,800	1,760
Accrued holidays	5,421	4,734
Accrued salaries and wages (bonuses)	-	250
Accrued retirement severance payments	628	124
Accrued severance payments	109	-
Special accounts	106	40
	21,323	19,199

Changes in accrued employee benefits

Change in accrued holidays	
Carrying amount as at Jan 1 2018	4,798
Increase	4,726
Use	(4,790)
Carrying amount as at Dec 31 2018	4,734
Carrying amount as at Jan 1 2019	4,734
Increase	6,281
Use	(5,594)
Carrying amount as at Dec 31 2019	5,421

Change in accrued salaries and wages (bonuses)	
Carrying amount as at Jan 1 2018	206
Increase	3,214
Use	(3,170)
Release	-
Carrying amount as at Dec 31 2018	250
Carrying amount as at Jan 1 2019	250
Increase	-
Use	-
Release	(250)
Carrying amount as at Dec 31 2019	-

27. Current provisions

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.

28. Trade and other payables

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Trade and other payables to related entities	42,988	26,958
Trade payables to other entities	13,469	18,454
Deferred income	12,120	12,687
Taxes, customs duties, insurance and other benefits payable	1,234	1,728
Accrued expenses	1,380	771
Other liabilities	2,690	2,350
	73,882	62,948

For information on the exposure to currency risk and liquidity risk associated with liabilities, see note 29.

29. Management of risk arising from financial instruments

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

- credit risk
- liquidity risk
- market risk.

This note presents information on the Company's exposure to each type of the above risks, the Company's objectives, policies and procedures for measuring and managing the risks, and the Company's management of capital. Note 28 to these financial statements presents respective quantitative disclosures.

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.

29.1. Credit risk

Credit risk is the risk of financial loss to the Company if a trading 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.

Trade and other receivables

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

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

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

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

The Company's exposure to credit risk results mainly from individual characteristics of each trading 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 trading partner (excluding the subsidiaries) accounts for 2% of the Company's revenue (2018: 3.7%), and the respective percentages for the Company's related entities are 86.9% and 89%. Receivables from the Company's largest third-party trading partner accounted for 3.2% of total gross trade receivables as at December 31st 2019 (December 31st 2018: 7.6%); among the related entities the figures were 29.4% and 25%, respectively. Therefore, there is no significant concentration of credit risk.
The Company recognises impairment losses which represent its estimates of losses incurred on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

Purchased debt portfolios

Purchased 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 the purchased debt portfolios is relatively high, although the Company has the experience and advanced analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Company evaluates the portfolio's credit risk, which is subsequently reflected in the price offered for the portfolio.

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

As at each valuation date, the Company estimates the credit risk based on past inflows from a given portfolio as well as other portfolios with similar characteristics. The following parameters are taken into account in the credit risk assessment:

- Debt:
  - outstanding amount
  - principal
  - principal to debt ratio
  - amount of credit granted / total amount of received invoices
  - type of product
  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).
- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form
  - debtor's death or bankruptcy
  - debtor's employment.
- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforcement order
  - court collection
  - bailiff collection.

Changes in credit risk assessment affect expected amounts of future cash flows which are used as a basis of valuation of the purchased debt portfolios.

The 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. Remaining sub-portfolios are valued on a case-by-case basis in a due diligence process.

Proceeds are estimated based on a statistical model developed on the basis of available and precisely 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 on quality of the data provided by the client for valuation, reference data matching, number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow forecast.

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 clients, which includes, among other things:

- Assessment of a client'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 advanced tools of economic and statistical analysis and 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.

Guarantees

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

Exposure to credit risk

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

PLN '000	***Note***	**Dec 31 2019**	**Dec 31 2018**
Financial assets at amortised cost			
	16	36,949	38,800
Loans	*16*	324,595	110,867
Receivables	*19*	86,160	31,848
		447,704	181,515

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

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Poland	332,584	53,156
Romania	91,746	107,629
Czech Republic and Slovakia	23,374	20,730
	447,704	181,515

Impairment losses

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

IFRS 9 classification		Carrying amount as at Dec 31 2019 (IFRS 9)	Carrying amount as at Dec 31 2018 (IFRS 9)
Trade and other receivables	Basket 1	86,240	31,849
	Basket 2	80	873
	Basket 3	-	-
		86,320	32,722
Impairment losses	Basket 1	-	-
	Basket 2	80	873
	Basket 3	-	-
		80	873

Changes of impairment losses on receivables are presented below:

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Loss allowance as at Jan 1	873	2,869
Loss allowance recognised in the period	18	6
Reversal of loss allowance	(798)	(95)
Use of loss allowance	(13)	(1,907)
Loss allowance as at Dec 31	80	873

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

In addition, the Company recognises impairment losses on all receivables from companies which are subject to bankruptcy or liquidation proceedings, as well as for receivables in litigation.

The Company does not recognise impairment losses on trade receivables as long as there is a high probability that they will be repaid. When a receivable or an investment is deemed unrecoverable, a relevant amount is charged to expenses.

In 2019−2018, the Company did not recognise any general impairment losses on receivables.

29.2. 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.

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2019
PLN '000

	Present value	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	36,949	80,919	16,018	13,924	20,192	24,914	5,872
Secured borrowings	(399,717)	(420,994)	(5,272)	(33,096)	(10,014)	(372,612)	-
Unsecured bonds in issue	(1,361,175)	(1,536,673)	(49,368)	(107,724)	(590,729)	(586,767)	(202,085)
Lease liabilities	(23,713)	(25,572)	(4,124)	(4,790)	(6,993)	(7,775)	(1,890)
Trade and other payables	(73,882)	(73,882)	(73,882)	-	-	-	-
	(1,821,537)	(1,976,202)	(116,628)	(131,686)	(587,544)	(942,240)	(198,104)

As at Dec 31 2018
PLN '000

	Present value	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	38,800	83,275	17,546	14,106	20,840	25,898	4,885
Secured borrowings	(365,173)	(386,816)	(16,044)	(19,346)	(38,173)	(111,392)	(201,859)
Unsecured bonds in issue	(1,359,871)	(1,465,773)	(82,630)	(121,273)	(142,325)	(1,119,545)	-
Lease liabilities	(6,954)	(7,501)	(2,322)	(1,628)	(2,249)	(1,302)	-
Trade and other payables	(62,948)	(62,948)	(62,948)	-	-	-	-
	(1,756,146)	(1,839,762)	(147,398)	(128,142)	(162,907)	(1,206,342)	(196,974)

Contractual cash flows were determined based on interest rates effective as at December 31st 2018 and December 31st 2019, respectively.

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

As at December 31st 2019, the undrawn revolving credit facility limit available to the Company was PLN 95,337 thousand (2018: PLN 140,939 thousand). The limit is available until December 19th 2023.

29.3. Market risk

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

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

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

- interest rate risk management rules of the Company,

The currency risk management policy outlines:

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

As at December 31st 2019, assets denominated in foreign currencies accounted for 1.2% of total assets, while liabilities denominated in foreign currencies represented 7.6% of total equity and liabilities (December 31st 2018: 1.44% and 18%, respectively).

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

29.4. Currency risk

Exposure to currency risk

The Company's exposure to currency risk, which is attributable to financial instruments denominated in foreign currencies and investments in foreign subsidiaries, calculated based on the exchange rates effective at the end of the reporting period is presented below:

'000	Dec 31 2019			Dec 31 2018		
	EUR	RON	CZK	EUR	RON	CZK
Trade receivables	-	-	-	-	-	-
Cash	190	1,537	296	37	4,744	2,271
Financial assets measured at amortised cost	194	28,112	1,679	283	28,627	1,833
Borrowings and other financial liabilities	(212,412)	-	-	(346,396)	-	-
Exposure to currency risk	(212,029)	29,648	1,975	(346,075)	33,371	4,104

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

	Average exchange rates		End of period (spot rates)	
PLN	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**
EUR 1	4.3018	4.2669	4.2585	4.3000
USD 1	3.8440	3.6227	3.7977	3.7597
RON 1	0.9053	0.9165	0.8901	0.9229
CZK 1	0.1676	0.1663	0.1676	0.1673

PLN '000	**Other comprehensive income**	**Profit or loss for the current period**
Dec 31 2019		
EUR (10% appreciation of PLN)	-	(21,203)
RON (10% appreciation of PLN)	-	2,965
CZK (10% appreciation of PLN)	-	197
Dec 31 2018		
EUR (10% appreciation of PLN)	-	34,608
RON (10% appreciation of PLN)	-	(3,337)
CZK (10% appreciation of PLN)	-	(410)

29.5. Interest rate risk

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

PLN '000	**Carrying amount**	
	Dec 31 2019	**Dec 31 2018**
Fixed-rate financial instruments		
Financial assets	123,109	38,800
Financial liabilities	(287,582)	(326,296)
	(164,472)	(287,496)
Risk mitigation effect	(530,000)	(200,000)
	(694,472)	(487,496)
Variable-rate financial instruments		
Financial assets	324,595	110,867
Financial liabilities	(1,570,905)	(1,468,650)
	(1,246,310)	(1,357,783)
Risk mitigation effect	530,000	200,000
	(716,310)	(1,157,783)

Sensitivity analysis of fair value of fixed-rate financial instruments

The Company does not hold any fixed-interest financial assets or liabilities measured at fair value through profit or loss, nor does it use derivative transactions (IRSs) as fair value hedges. Therefore, a change of an interest rate would have no material effect on current period's profit or loss.

Sensitivity analysis of cash flows from variable-rate financial instruments

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

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

	Profit or loss for the current period		**Equity excluding profit or loss for current period**	
PLN '000	**up by 100 bps**	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2019				
Variable rate financial assets	3,246	(3,246)	-	-
Variable rate financial liabilities	(15,709)	15,709	-	-
Dec 31 2018				
Variable rate financial assets	1,109	(1,109)	-	-
Variable rate financial liabilities	(14,687)	14,687	-	-

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 '000	Dec 31 2019 Carrying amount	Dec 31 2019 Fair value	Dec 31 2018 Carrying amount	Dec 31 2018 Fair value
Financial assets and liabilities measured at fair value				
Other derivatives	295	295	(2,420)	(2,420)
	295	295	(2,420)	(2,420)
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	36,949	34,030	38,800	36,077
Loans and receivables	324,595	324,595	110,867	110,867
Secured bank borrowings	(399,717)	(399,717)	(365,173)	(365,173)
Unsecured bonds in issue	(1,361,175)	(1,372,989)	(1,359,871)	(1,369,712)
Lease liabilities	(23,713)	(23,713)	(6,954)	(6,954)
Trade and other payables	(73,882)	(73,882)	(62,948)	(62,948)
	(1,496,943)	(1,511,675)	(1,645,279)	(1,657,843)

For information on fair value measurement, see note 3.3.1.

Interest rates used for fair value estimation

	Dec 31 2019	Dec 31 2018
Investments in debt portfolios	23.65% - 170.19%	19.67% - 170.19%
Borrowings	1.76% - 3.71%	1.84% - 3.44%
Unsecured bonds in issue	4.71% - 5.71%	4.22% - 5.22%
Lease liabilities	1.64% - 3.97%	1.09% - 3.90%

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 (e.g. as prices) or indirectly (e.g. as provisions derivative),
- Level 3: inputs that are not based on observable market prices (unobservable inputs).

In 2018−2019, no transfers were made between the levels.

PLN '000		**Level 3**
	Carrying amount	**Fair value**
As at Dec 31 2018		
Investments in debt portfolios	38,800	36,077
As at Dec 31 2019		
Investments in debt portfolios	36,949	34,030

The fair value of purchased debt portfolios is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio. The rate used for discounting is calculated as an internal rate of return on an investment as at the date of acquisition of a portfolio and is verified so that it includes the present risk free rate and the present risk premium associated with the credit risk for each portfolio.
The Company determines fair value for loans taking into account input data on the Level 3.
For bank loans, issued bonds, leases and trade payables, the Company determines fair value taking into account the input data on the Level 2.

30. Related-party transactions

Remuneration of the management personnel

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

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Base pay/ managerial contract (gross)	6,425	6,599
Provision for employee bonuses for current year	-	250
Share based payments	9,658	8,118
	16,082	14,967

Other related-party transactions

As at December 31st 2019, members of the Management Board and persons closely related to them jointly held 11.09% of the total voting rights at the Company's General Meeting (December 31st 2018: 11.62%).

Transactions with subsidiaries as at and for the period ended December 31st 2018

Balance of liabilities, receivables and loans as at the reporting date

PLN '000	Liabilities	Receivables	Loans	Interest accrued on loans
SeCapital S.à. r.l	6,483	1,507	-	-
ERIF Business Solutions Sp. z o.o.	-	171	-	-
Novum Finance Sp. z o.o.	-	383	20,842	1
SeCapital Polska Sp. z o.o.	-	1	107	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	2,328	2,470	-	-
KRUK Romania S.r.l.	(146)	5,860	66,582	1,006
ERIF BIG S.A.	-	84	-	-
NSFIZ PROKURA	3,430	7,110	-	-
KRUK Česká a Slovenská republika s.r.o.	(29)	1,529	18,901	55
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	5,475	-	-
InvestCapital Ltd.	-	(2,472)	-	-
KRUK Deutschland GmbH	-	376	-	-
KRUK Deutschland (Branch)	-	125	-	-
Rocapital IFN S.A.	-	6	4,603	57
KRUK Italia S.r.l	4	324	-	-
ItaCapital S.r.l	-	103	-	-
KRUK Espana S.L.	-	253	-	-
Presco Investments S.a.r.l.	14,889	514	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	58	-	-
NSFIZ BISON	-	(590)	-	-
Corbul Capital S.r.l	-	-	-	-
ProsperoCapital S.a.r.l.	-	2	-	-
Elleffe Capital S.r.l.	-	5	-	-
Zielona Perła Sp. z o.o.	-	1	-	-
AgeCredit S.r.l.	2	71	647	4
	26,961	23,366	111,682	1,123

Revenue from mutual transactions

PLN '000	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	381	31,068
ERIF Business Solutions Sp. z o.o.	98	-	48
Novum Finance Sp. z o.o.	706	1,064	1,054
SeCapital Polska Sp. z o.o.	11	-	4
Kancelaria Prawna RAVEN P.Krupa Sp. k.	3,885	-	1,988
KRUK Romania S.r.l.	3,387	-	3,684
ERIF BIG S.A.	935	-	-
NSFIZ PROKURA	-	-	-
KRUK Česká a Slovenská republika s.r.o.	(330)	-	904
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	116	49,708	-
InvestCapital Ltd.	9,706	-	-
KRUK Deutschland GmbH	941	-	-
KRUK Deutschland (Branch)	198	-	-
Rocapital IFN S.A.	-	-	134
KRUK Italia S.r.l	938	-	-
ItaCapital S.r.l	391	-	-
KRUK Espana S.L.	694	-	-
Presco Investments S.a.r.l.	-	(6,868)	56,498
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
NSFIZ BISON	-	-	-
Corbul Capital S.r.l	-	-	-
ProsperoCapital S.a.r.l.	-	-	-
Elleffe Capital S.r.l.	-	-	-
Zielona Perła Sp. z o.o.	12	-	-
AgeCredit S.r.l.	-	-	5
	21,688	44,285	95,387

Costs of mutual transactions

PLN '000	Purchase of services
ERIF Business Solutions Sp. z o.o.	1
Kancelaria Prawna RAVEN P.Krupa Sp. k.	951
KRUK Romania S.r.l.	6,171
ERIF BIG S.A.	271
KRUK Česká a Slovenská republika s.r.o.	394
	7,788

Transactions with subsidiaries as at and for the period ended December 31st 2019

Balance of liabilities, receivables and loans as at the reporting date

PLN '000	**Liabilities**	**Receivables**	**Loans**	**Interest accrued on loans**
SeCapital S.à. r.l	8,172	1,415	-	-
ERIF Business Solutions Sp. z o.o.	-	253	1,503	(0)
Novum Finance Sp. z o.o.	-	387	38,242	-
SeCapital Polska Sp. z o.o.	-	1	130	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	59	9,446	-	-
KRUK Romania S.r.l.	523	14,008	58,665	461
ERIF BIG S.A.	51	-	-	-
NSFIZ PROKURA	4,729	8,470	-	-
KRUK Česká a Slovenská republika s.r.o.	85	281	20,168	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	8,288	-	-
InvestCapital Ltd.	-	489	-	-
KRUK Deutschland GmbH	-	372	-	-
KRUK Deutschland (Branch)	-	-	-	-
Rocapital IFN S.A.	-	24	4,451	57
KRUK Italia S.r.l	-	197	-	-
ItaCapital S.r.l	-	12	-	-
KRUK Espana S.L.	-	331	-	-
Presco Investments S.a.r.l.	29,312	29,823	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	58	305	-	-
ProsperoCapital S.a.r.l.	-	3	-	-
Corbul Capital S.r.l	-	-	-	-
Elleffe Capital S.r.l.	-	5	-	-
Zielona Perła Sp. z o.o.	-	0	-	-
NSFIZ BISON	-	3,622	-	-
AgeCredit S.r.l.	-	20	-	-
Wonga.pl Sp. z o.o.	-	13	200,917	-
	42,988	77,763	324,077	518

Revenue from mutual transactions

PLN '000	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	(222)	34
ERIF Business Solutions Sp. z o.o.	110	-	50
Novum Finance Sp. z o.o.	828	1,270	11,098
SeCapital Polska Sp. z o.o.	11	-	5
Kancelaria Prawna RAVEN P.Krupa Sp. k.	7,227	62	19,849
KRUK Romania S.r.l.	4,820	153	17,642
ERIF BIG S.A.	815	21	3,002
NSFIZ PROKURA	199	6	-
KRUK Česká a Slovenská republika s.r.o.	1,390	137	1,473
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	2,422	93,747	-
InvestCapital Ltd.	9,512	821	-
KRUK Deutschland GmbH	-	-	-
KRUK Deutschland (Branch)	10	(89)	-
Rocapital IFN S.A.	-	31	232
KRUK Italia S.r.l	948	-	-
ItaCapital S.r.l	185	-	-
KRUK Espana S.L.	828	1	-
Presco Investments S.a.r.l.	-	2,514	48,513
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
ProsperoCapital S.a.r.l.	-	-	-
Corbul Capital S.r.l	-	-	-
Elleffe Capital S.r.l.	-	-	-
Zielona Perła Sp. z o.o.	7	-	-
NSFIZ BISON	-	-	8
AgeCredit S.r.l.	-	-	-
Wonga.pl Sp. z o.o.	5	77	8,028
	29,315	98,530	109,932

Costs of mutual transactions

PLN '000	Purchase of services
ERIF Business Solutions Sp. z o.o.	8
Kancelaria Prawna RAVEN P.Krupa Sp. k.	796
KRUK Romania S.r.l.	6,211
ERIF BIG S.A.	238
KRUK Česká a Slovenská republika s.r.o.	359
	7,611

31. Share-based payments

PLN '000	Value of benefits granted
Period ending	
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
Total	64,581

The management stock option plans are described in note 22.

32. Auditor's fees

PLN '000 net	Dec 31 2019	Dec 31 2018
Audit of financial statements	1,496	1,227
Other assurance services, including review of financial statements	501	433
	1,997	1,660

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

Security created over KRUK S.A.'s assets is presented below:

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards Santander Bank S.A. under the credit facility granted to Prokura NS FIZ	Santander Bank Polska S.A.	PLN 30m	Until all obligations under the credit facility agreement are fulfilled.	Prokura NS FIZ's failure to pay its liabilities under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 52.97m	By December 19th 2022	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards Bank Powszechna Kasa Oszczędności BP S.A. (PKO BP S.A.) under the credit facility granted to Prokura NS FIZ	PKO BP S.A.	PLN 40.14m	By June 4th 2024	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 210m	By July 1st 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162.40m	Until the derivative transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

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 S.A.	PLN 162.40m	By October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Guarantee issued by KRUK S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A. are fulfilled	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. Z o.o.	EUR 0.28m and PLN 192,958.93	By December 30th 2020	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	By December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement

Separate financial statements for the year ended December 31st 2019 prepared in accordance with the IFRS endorsed by the EU (PLN '000)

Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	EUR 390m	Until all obligations under the credit facility agreement are satisfied.	The Borrower's failure to pay amounts owed under the credit facility agreement
Blank promissory note	mBank S.A.	PLN 7.5m	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019.
Surety for InvestCapital LTD's liabilities under financial market transactions in pursuant to the master agreement between InvestCapital LTD and DNB Bank Polska S.A.	DNB Bank Polska S.A.	EUR 15.3m	Until the transactions are settled and the bank's claims thereunder are satisfied.	InvestCapital LTD's failure to satisfy its obligations under financial market transactions executed pursuant to the master agreement of February 28th 2019.
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 30m	By January 28th 2020	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on August 29th 2019.

Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 85m	By February 12th 2020	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on October 9th 2019.
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 40m	By February 28th 2020	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on November 20th 2019.

34. Events subsequent to the reporting date

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

Piotr Krupa
President of the Management Board

Agnieszka Kułton
Member of the Management Board

Urszula Okarma
Member of the Management Board

Iwona Słomska
Member of the Management Board

Michał Zasępa
Member of the Management Board

Katarzyna Raczkiewicz
Person responsible for maintaining the accounting records

Hanna Stempień
Person preparing the financial statements

Wrocław, March 4th 2020.