KRUK S.A.

Separate financial statements

for the year ended December 31st 2020

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

KRUK S.A.

Dec 31 2020

Separate financial statements

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Separate statement of profit or loss

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

PLN '000	***Note***	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Interest income on debt portfolios measured at amortised cost	*5*	17,887	20,263
Other income/expenses from purchased debt portfolios	*5*	1,471	(957)
Revenue from provision of other services	*5*	112,126	139,089
Other income	*5*	16,613	1,693
Gain/(loss) on expected credit losses	*5*	10,820	16,281
Operating income including gain/(loss) on expected credit losses and other income/expenses from purchased debt portfolios		158,917	176,369
Employee benefits expense	*8*	(137,812)	(148,885)
Depreciation and amortisation		(17,995)	(18,823)
Services	*6*	(33,946)	(35,655)
Other expenses	*7*	(22,818)	(31,606)
		(212,571)	(234,969)
Operating loss		(53,655)	(58,600)
Finance income	*9*	20,534	14,277
Finance costs	*9*	(99,753)	(78,027)
including interest expense relating to lease liabilities		*(865)*	*(628)*
Net finance costs		(79,219)	(63,750)
Share of profit/(loss) of equity-accounted investees		325,386	438,529
Profit/(loss) before tax		192,513	316,179
Income tax	*10*	(111,158)	(39,790)
Net profit/(loss) for period		81,356	276,390
Earnings/(loss) per share			
Basic (PLN)	*21*	4.29	14.61
Diluted (PLN)	*21*	4.22	14.30

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

Statement of comprehensive income

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

PLN '000		**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Net profit/(loss) for period		**81,356**	**276,390**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		111,579	23,550
Cash flow hedges	*23*	(14,861)	3,947
Other comprehensive income for the period, net		96,718	27,497
Total comprehensive income for period		**178,074**	**303,887**

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

Statement of financial position

As at Dec 31 2020

PLN '000	*Note*	Dec 31 2020	Dec 31 2019 Restated	Jan 1 2019 Restated
Assets				
Cash and cash equivalents	19	6,595	13,812	9,151
Derivatives	24	-	3,820	1,450
Hedging instruments	23	-	399	-
Trade receivables from related entities	18	20,594	25,435	21,814
Trade receivables from other entities	18	2,640	3,365	2,811
Other receivables	18	7,869	54,597	7,223
Inventories	17	28,755	30,294	27,260
Investments	15	320,520	343,926	149,667
Equity-accounted investments in subsidiaries	14	3,315,459	3,352,745	3,320,121
Property, plant and equipment	12	37,521	34,944	16,169
Intangible assets	13	12,841	15,084	16,547
Other assets		5,956	4,683	4,173
Total assets		3,758,750	3,883,104	3,576,386
Equity and liabilities				
Liabilities				
Trade and other payables	27	51,863	67,056	55,556
Derivatives	24	11,236	-	-
Hedging instruments	23	18,386	3,924	3,870
Employee benefit obligations	25	21,464	20,695	19,075
Income tax payable		4,358	690	12,295
Borrowings, other debt securities and leases	22	1,462,143	1,784,605	1,731,998
Provisions	26	11,280	7,454	7,516
Deferred tax liability	16	134,249	40,254	13,722
Total liabilities		1,714,979	1,924,678	1,844,032
Equity				
Share capital	20	19,011	18,972	18,887
Share premium		310,430	307,192	300,097
Cash flow hedging reserve		(14,783)	78	(3,869)
Translation reserve		81,360	(30,219)	(53,769)
Other capital reserves		103,626	104,582	94,924
Retained earnings		1,544,127	1,557,821	1,376,084
Total equity		2,043,771	1,958,426	1,732,354
Equity and liabilities		3,758,750	3,883,104	3,576,386

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

Statement of changes in equity

For the reporting period ended December 31st 2019

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Total equity as at Jan 1 2019		18,887	300,097	(3,869)	-	94,924	159,850	569,889
Impact of restatement		-	-	-	(53,769)	-	1,216,234	1,162,465
Total equity as at Jan 1 2019 (restated)		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,354
Comprehensive income for the period								
Net profit/(loss) for period		-	-	-	-	-	276,390	276,390
Translation reserve		-	-	-	23,550	-	-	23,550
Measurement of hedging instruments		-	-	3,947	-	-	-	3,947
Total comprehensive income for period		-	-	3,947	23,550	-	276,390	303,887
Contributions from and distributions to owners								
- Payment of dividends	*21*	-	-	-	-	-	(94,653)	(94,653)
- Share-based payments	*30*	-	-	-	-	9,658	-	9,658
- Issue of shares	*20*	85	7,095	-	-	-	-	7,180
Total contributions from and distributions to owners		85	7,095	-	-	9,658	(94,653)	(77,815)
Total equity as at Dec 31 2019 (restated)		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426

For the reporting period ended December 31st 2020

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2020 (restated)		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426
Comprehensive income for the period								
Net profit/(loss) for period		-	-	-	-	-	81,356	81,356
Translation reserve		-	-	-	111,579	-	-	111,579
Measurement of hedging instruments		-	-	(14,861)	-	-	-	(14,861)
Total comprehensive income for period		-	-	(14,861)	111,579	-	81,356	178,074
Contributions from and distributions to owners								
- Share-based payments	*30*	-	-	-	-	(1,156)	-	(1,156)
- Issue of shares	*20*	39	3,238	-	-	-	-	3,277
- Allocation of profit to capital reserve for buyback of shares		-	-	-	-	95,050	(95,050)	-
- Share buyback	*20*	-	-	-	-	(94,850)	-	(94,850)
Total contributions from and distributions to owners		39	3,238	-	-	(956)	(95,050)	(92,729)
Total equity as at Dec 31 2020		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771

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

Separate statement of cash flows

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

PLN '000		**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Cash flows from operating activities			
Net profit/(loss) for period		81,356	276,390
Adjustments			
Depreciation of property, plant and equipment	12	12,609	13,351
Amortisation of intangible assets	13	5,386	5,472
Net finance income/costs	9	78,661	65,035
Share of profit/(loss) of equity-accounted investees		(325,386)	(438,529)
Settlement of lease payments under terminated contracts		(1,300)	-
(Gain)/loss on sale of property, plant and equipment		(813)	27
Equity-settled share-based payments	30	(1,156)	9,658
Income tax		111,158	39,790
Change in investments	15	3,620	(4,218)
Change in inventories	17	1,539	3,034
Change in trade and other receivables	18	54,372	(7,752)
Change in prepayments and accrued income		(1,273)	(510)
Change in trade and other payables, excluding financial liabilities	22	(15,193)	11,500
Change in employee benefit obligations	25	769	1,620
Change in provisions	26	3,826	(62)
Income tax paid		(13,478)	(24,788)
Net cash from operating activities		(5,304)	(49,984)
Cash flows from investing activities			
Interest received	9	36	82
Loans	15	(42,700)	(270,608)
Sale of intangible assets and property, plant and equipment		3,133	2,487
Dividends received		18,651	49,537
Disposal of financial assets		482,863	503,256
Proceeds from derivative instruments		-	4,477
Purchase of intangible assets and property, plant and equipment	12.13	(7,037)	(12,359)
Acquisition of shares in subsidiaries	14	(27,028)	(117,450)
Repayments	15	85,779	36,370
Net cash from investing activities		513,698	195,791
Cash flows from financing activities			
Redemption of debt securities	22	24,550	215,000
Net proceeds from issue of shares	20	3,277	7,095
Increase in borrowings	22	578,994	1,114,116
Share buyback	20	(94,850)	-
Repayment of borrowings	22	(865,074)	(1,079,138)
Payments under finance lease contracts (principal)	22	(8,371)	(9,434)
Dividends paid	21	-	(94,653)
Redemption of debt securities	22	(88,360)	(211,388)
Interest paid		(65,775)	(82,744)
Net cash from financing activities		(515,610)	(141,146)
Total net cash flows		(7,216)	4,661
Cash and cash equivalents at beginning of period		13,812	9,151
Cash and cash equivalents at end of period		6,595	13,812

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

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

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

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

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

As at December 31st 2019 and as at the date of authorisation of the 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 the 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 24th 2021.

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. The going concern assumption was reviewed in the light of the COVID-19 pandemic, with detailed assessment of its impact on the Company’s financial and liquidity situation which was described in Note 31.2 *Effect of COVID-19 pandemic.*

2.2. Basis of accounting

These financial statements have been prepared for the reporting period January 1st 2020 – December 31st 2020. The comparative data is presented as at December 31st 2019 and for the period January 1st 2019 – December 31st 2019.

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

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

2.3. Functional currency and presentation currency

The data contained in these financial statements are presented in the Polish złoty (PLN), rounded to the nearest thousand. Therefore, mathematical inconsistencies may occur in summations or between notes. The Polish złoty is the functional currency of the Company.

2.4. Accounting estimates and judgements

In order to prepare separate financial statements, the Management Board is required to make judgements, estimates and assumptions which affect the application of adopted accounting policies and the reported amounts of assets, liabilities, revenue and expenses, whose actual values may differ from estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is revised.
The estimates and assumptions are reviewed by the Company on an ongoing basis, based on past experience and other factors, including expectations as to future events, which seem justified in given circumstances. In particular, the Company's estimates as at December 31st 2020 reflected the impact of Covid-19 on the Company's assets and liabilities. However, given a considerable degree of uncertainty regarding further economic developments, these estimates may be subject to change in the future. The uncertainty of the Company's estimates as at December 31st 2020 relates mainly to:

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN '000)*	Dec 31 2019 *(PLN '000)* Restated		
Equity-accounted investments in subsidiaries	3,315,459	3,352,745	3.8, 14	Equity-accounted investments in subsidiaries are subject to impairment testing. Investments in subsidiaries for which impairment indications were identified were tested for impairment. As part of the tests, the Company estimated the recoverable amount of the investments based on the value in use of the respective cash-generating units, using the discounted cash flow method.

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN '000)*	Dec 31 2019 *(PLN '000)* Restated		
				The valuation of investments in subsidiaries is based on a number of assumptions and estimates, in particular with respect to the amount of future cash flows and the adopted discount rate. The projected cash flows of subsidiaries investing in debt portfolios or debt-related assets depend primarily on the assumed expenditure on new portfolios and amount of recoveries. The correctness of the underlying assumptions involves a considerable risk given the significant uncertainty as to the effectiveness of debt collection activities in the future. The discount rate used to test investments in subsidiaries for impairment reflects the current market assessment of the asset risk for the debt collection industry.
Investments in debt portfolios	33,329	36,949	3.3.1, 15, 28.1, 28.3	The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows.The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or indebted persons (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. KRUK S.A. prepares projections of collections from debt portfolios separately for individual markets. The projections account for historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, current collection strategy and macroeconomic considerations, among other factors. The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts that take into account the initial value (purchase price plus transaction costs),

Item	Amount estimated		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN '000)*	Dec 31 2019 *(PLN '000)* Restated		
				and in principle remains unchanged throughout the life of a portfolio.
Deferred tax liability	(134,249)	(40,254)	3.23., 16	As the Company is able to control the timing of temporary differences with respect to investments in subsidiaries, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). The Company assesses the recoverability of deferred tax asset based on its approved financial forecast for the following years.
Right-of-use assets	27,693	21,994	3.4.4, 3.3.3 12	The application of IFRS 16 requires certain estimates and calculations to be made that affect the measurement of lease liabilities and right-of-use assets. These include: • reviewing the lease contracts, • determining the lease term, • determining the marginal interest rates to be used to discount future cash flows, • identifying useful lives and determining amortisation rates for the right-of-use assets.
Lease liabilities	(30,444)	(23,713)	22	
Derivatives	(11,236)	3,820	3.3.4, 24	The Company estimates the fair value of derivative instruments as at each reporting date. Difference in discounted interest cash inflows and outflows in two different currencies, expressed in the valuation currency. The inputs include interest rate curves, basis spreads and the National Bank of Poland's fixing for the respective currencies, as provided by the Bank.
Hedging instruments	(18,386)	(3,525)	3.3.4, 23	The Company estimates the fair value of its hedging instruments as at each reporting date. Difference in discounted interest cash flows based on floating and fixed interest rates. The inputs include the interest rate curve provided by the bank.

Item	Amount subject to judgement		Note	Assumptions and estimate calculation
	Dec 31 2020 *(PLN '000)*	Dec 31 2019 *(PLN '000)* Restated		
Investments in debt portfolios	81,953	96,936	3.7, 15	The Company determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios at ProsperoCapital S.à r.l on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture.

3. Significant accounting policies

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

3.1. Changes in accounting policies

Implementation of the equity accounting method for investments in subsidiaries

As permitted by IAS 8 par. 14b, in 2020 the Management Board of Kruk S.A. made a voluntary change to its accounting policies by replacing the measurement of investments in subsidiaries at cost less impairment losses with the equity accounting method, having determined that the changed accounting policy would provide more relevant information and better reflect the Company's financial position.

In the case of transactions with related parties, the acquisition cost of shares or certificates is their fair value as at the acquisition date. At the end of each accounting period, but not less frequently than at the end of every quarter, the value of an investment is remeasured by the share of the subsidiary's profits/losses attributable to the shareholder's (Company's) interest, resulting from the number of shares entitling it to share in such profits/losses. The value of the investment is increased by the value of cash or non-cash contributions made, and reduced by the amount of dividends paid or declared or the value of cancelled shares/certificates. The Company's share of profit/(loss) of a subsidiary is recognised in the Company's profit or loss, under 'Share of profit/(loss) of equity-accounted investees'.

A gain/(loss) on disposal transactions (sale price less the value recognised through the equity method) is recorded in the statement of profit or loss as a gain or loss on disposal of shares in subsidiaries.

Change in accounting treatment due to reclassification

As part of its operating activities, the Company forecloses property securing acquired debt. In order to better reflect the relevant economic substance, December 31st 2020 the Company reclassified such property, previously recognised as Investment property measured at fair value, to Inventories measured at cost in accordance with the accounting policies.

In connection with the above changes in accountiung policies, the Company made a retrospective change to comparative data. Below are presented the effects of the reclassification of investment property and application of the equity accounting method to measure investments in subsidiaries on the respective items of the separate statement of profit or loss, statement of comprehensive income, statement of financial position, and statement of changes in equity for the comparative period.

Effect of the change on statement of profit or loss

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

PLN '000	*Note*	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019 Restated	Implementation of the equity accounting method	Reclassification of property	Jan 1-Dec 31 2019 Originally reported
Interest income on debt portfolios measured at amortised cost	*5*	17,887	20,263	-	-	20,263
Other income/expenses from purchased debt portfolios	*5*	1,471	(957)	-	-	(957)
Revenue from other services	*5*	112,126	139,089			139,089
Other income	*5*	16,613	1,693	-	-	1,693
Gain/(loss) on expected credit losses	*5*	10,820	16,281	-	-	16,281
Operating income including gain/(loss) on expected credit losses and other income/expenses from purchased debt portfolios		158,917	176,369	-	-	176,369
Employee benefits expense	*8*	(137,812)	(148,885)	-	-	(148,885)
Depreciation and amortisation		(17,995)	(18,823)	-	-	(18,823)
Services	*6*	(33,946)	(35,655)	-	-	(35,655)
Other expenses	*7*	(22,818)	(31,606)	-	-	(31,606)
		(212,571)	(234,969)	-	-	(234,969)
Operating loss		(53,655)	(58,600)	-	-	(58,600)
Finance income	*9*	20,534	14,277	(518,699)	-	532,976
Finance costs	*9*	(99,753)	(78,027)	-	-	(78,027)
including interest expense relating to lease liabilities		*(865)*	*(628)*			*(628)*
Net finance costs		(79,219)	(63,750)	(518,699)	-	454,950
Share of profit/(loss) of equity-accounted investees		325,386	438,529	438,529	-	-
Profit/(loss) before tax		192,513	316,179	(80,170)	-	396,350
Income tax	*10*	(111,158)	(39,790)	(29,957)	-	(9,833)
Net profit/(loss) for period		81,356	276,390	(110,127)	-	386,517
Earnings/(loss) per share						
Basic (PLN)	*21*	4.29	14.61			20.43
Diluted (PLN)	*21*	4.22	14.30			20.00

Effect of the change on statement of comprehensive income

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

PLN '000		**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**	**Implementation of the equity accounting method**	**Reclassification of property**	**Jan 1-Dec 31 2019 Originally reported**
Net profit/(loss) for period		**81,356**	**276,390**	**(110,127)**	-	**386,517**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		111,579	23,550	-	-	-
Cash flow hedges	*23*	(14,861)	3,947	-	-	3,947
Other comprehensive income for the period, net		96,718	27,497	-	-	3,947
Total comprehensive income for period		**178,074**	**303,887**	**(110,127)**	-	**390,464**

Effect of the change on statement of financial position

As at Dec 31 2020

PLN '000	*Note*	**Dec 31 2020**	**Dec 31 2019 Restated**	**Implementation of the equity accounting method**	**Reclassification of property**	**Dec 31 2019 Originally reported**	**Jan 1 2019 Restated**	**Implementation of the equity accounting method**	**Reclassification of property**	**Dec 31 2018 Originally reported**
Assets										
Cash and cash equivalents	*19*	6,595	13,812	-	-	13,812	9,151	-	-	9,151
Derivatives	*24*	-	3,820	-	-	3,820	1,450	-	-	1,450
Hedging instruments	*23*	-	399	-	-	399	-	-	-	-
Trade receivables from related entities	*18*	20,594	25,435	(2,763)	-	28,198	21,814	-	-	21,814
Trade receivables from other entities	*18*	2,640	3,365	-	-	3,365	2,811	-	-	2,811
Other receivables	*18*	7,869	54,597		-	54,597	7,223	-	-	7,223
Inventories	*17*	28,755	30,294	-	30,279	15	27,260	-	27,238	22
Investment property		-	-	-	(30,279)	30,279	-	-	(27,238)	27,238
Investments	*15*	320,520	343,926	(17,618)	-	361,544	149,667	-	-	149,667
Equity-accounted investments in subsidiaries	*14*	3,315,459	3,352,745	3,352,745	-	-	3,320,121	3,320,121	-	-
Investments in subsidiaries measured at cost		-	-	(2,212,258)	-	2,212,258	-	(2,143,481)	-	2,143,481
Property, plant and equipment	*12*	37,521	34,944	-	-	34,944	16,169	-	-	16,169
Intangible assets	*13*	12,841	15,084	-	-	15,084	16,547	-	-	16,547
Deferred tax asset	*16*	-	-	(3,877)	-	3,877	-	(453)	-	453
Other assets		5,956	4,683	-	-	4,683	4,173	-	-	4,173
Total assets		3,758,750	3,883,104	1,116,229	-	2,766,876	3,576,386	1,176,187	-	2,400,199
Equity and liabilities										
Liabilities										
Trade and other payables	*27*	51,863	67,056	-	-	67,056	55,556	-	-	55,556
Derivatives	*24*	11,236	-	-	-	-	-	-	-	-
Hedging instruments	*23*	18,386	3,924	-	-	3,924	3,870	-	-	3,870
Employee benefit obligations	*25*	21,464	20,695	-		20,695	19,075	-	-	19,075
Income tax payable		4,358	690	-	-	690	12,295	-	-	12,295
Borrowings, other debt securities and leases	*22*	1,462,143	1,784,605	-	-	1,784,605	1,731,998	-	-	1,731,998
Provisions		11,280	7,454	-		7,454	7,516	-	-	7,516
Deferred tax liability	*16*	134,249	40,254	40,254	-	-	13,722	13,722	-	-
Total liabilities		1,714,979	1,924,678	40,254	-	1,884,424	1,844,032	13,722	-	1,830,310
Equity										
Share capital	*20*	19,011	18,972	-	-	18,972	18,887	-	-	18,887
Share premium		310,430	307,192	-	-	307,192	300,097	-	-	300,097
Cash flow hedging reserve		(14,783)	78	-	-	78	(3,869)	-	-	(3,869)
Translation reserve		81,360	(30,219)	(30,219)	-	-	(53,769)	(53,769)	-	-
Other capital reserves		103,626	104,582	-	-	104,582	94,924	-	-	94,924
Retained earnings		1,544,127	1,557,821	1,106,193	-	451,629	1,376,084	1,216,234	-	159,850
Total equity		2,043,771	1,958,426	1,075,975	-	882,452	1,732,354	1,162,465	-	569,889
Equity and liabilities		3,758,750	3,883,104	1,116,229	-	2,766,876	3,576,386	1,176,187	-	2,400,199

Effect of the change on statement of changes in equity

For the reporting period ended December 31st 2019

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Total equity as at Jan 1 2019		18,887	300,097	(3,869)	-	94,924	159,850	569,889
Implementation of the equity accounting method		-	-	-	(53,769)	-	1,216,234	1,162,465
Total equity as at Jan 1 2019 (restated)		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,354
Comprehensive income for the period								
Net profit/(loss) for period		-	-	-	-	-	386,517	386,517
Implementation of the equity accounting method							(110,127)	(110,127)
Translation reserve		-	-	-	23,550	-		23,550
Measurement of hedging instruments		-	-	3,947	-	-	-	3,947
Total comprehensive income for period		-	-	3,947	23,550	-	276,390	303,887
Contributions from and distributions to owners								
- Payment of dividends	*21*	-	-	-	-	-	(94,653)	(94,653)
- Share-based payments	*30*	-	-	-	-	9,658	-	9,658
- Issue of shares	*20*	85	7,095	-	-	-	-	7,180
Total contributions from and distributions to owners		85	7,095	-	-	9,658	(94,653)	(77,815)
Total equity as at Dec 31 2019 (restated)		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426

For the reporting period ended December 31st 2020

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Translation reserve	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2020 (restated)		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,426
Comprehensive income for the period								
Net profit/(loss) for period, originally reported		-	-	-	-	-	81,356	81,356
Translation reserve		-	-	-	111,579	-	-	111,579
Measurement of hedging instruments		-	-	(14,861)	-	-	-	(14,861)
Total comprehensive income for period		-	-	(14,861)	111,579	-	81,356	178,074
Contributions from and distributions to owners								
- Share-based payments	*30*	-	-	-	-	(1,156)	-	(1,156)
- Issue of shares	*20*	39	3,238	-	-	-	-	3,277
- Allocation of profit to capital reserve for buyback of shares		-	-	-	-	95,050	(95,050)	-
- Share buyback	*20*	-	-	-	-	(94,850)	-	(94,850)
Total contributions from and distributions to owners		39	3,238	-	-	(956)	(95,050)	(92,729)
Total equity as at Dec 31 2020		19,011	310,430	(14,783)	81,360	103,626	1,544,127	2,043,771

Effect of the change on statement of cash flows

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

PLN '000		Jan 1–Dec 31 2020	Jan 1-Dec 31 2019 Restated	Implementation of the equity accounting method	Reclassification of property	Jan 1-Dec 31 2019 originally reported
Cash flows from operating activities						
Net profit/(loss) for period		81,356	276,390	(110,127)	-	386,517
Adjustments				-		
Depreciation of property, plant and equipment	*12*	12,609	13,351	-	-	13,351
Amortisation of intangible assets	*13*	5,386	5,472	-	-	5,472
Net finance income/costs	*9*	78,661	65,035	518,699	-	(453,664)
Share of profit/(loss) of equity-accounted investees		(325,386)	(438,529)	(438,529)	-	-
Settlement of lease payments under terminated contracts		(1,300)	-	-	-	-
(Gain)/loss on sale of property, plant and equipment		(813)	27	-	-	27
Equity-settled share-based payments	*30*	(1,156)	9,658	-	-	9,658
Income tax		111,158	39,790	29,957	-	9,833
Change in investments	*15*	3,620	(4,218)	-	(3,027)	(1,191)
Change in inventories	*17*	1,539	3,034	-	3,027	7
Change in trade and other receivables	*18*	54,372	(7,752)	-	-	(7,752)
Change in prepayments and accrued income		(1,273)	(510)	-	-	(510)
Change in trade and other payables, excluding financial liabilities	*22*	(15,193)	11,500	-	-	11,500
Change in employee benefit obligations	*25*	769	1,620	-	-	1,620
Change in provisions	*26*	3,826	(62)		-	(62)
Income tax paid		(13,478)	(24,788)	-	-	(24,788)
Net cash from operating activities		(5,304)	(49,985)	-	-	(49,985)
Cash flows from investing activities					-	
Interest received	*9*	36	82	-	-	82
Loans	*15*	(42,700)	(270,608)	-	-	(270,608)
Sale of intangible assets and property, plant and equipment		3,133	2,487	-	-	2,487
Dividends received		18,651	49,537	-	-	49,537
Disposal of financial assets		482,863	503,256	-	-	503,256
Proceeds from derivative instruments		-	4,477	-	-	4,477
Purchase of intangible assets and property, plant and equipment	*12.13*	(7,037)	(12,359)	-	-	(12,359)
Acquisition of shares in subsidiaries	*14*	(27,028)	(117,450)	-	-	(117,450)
Repayments	*15*	85,779	36,370	-	-	36,370
Net cash from investing activities		513,698	195,791	-	-	195,791
Cash flows from financing activities						
Redemption of debt securities	*22*	24,550	215,000	-	-	215,000
Net proceeds from issue of shares	*20*	3,277	7,095	-	-	7,095
Increase in borrowings	*22*	578,994	1,114,116	-	-	1,114,116
Share buyback	*20*	(94,850)	-	-	-	
Repayment of borrowings	*22*	(865,074)	(1,079,138)	-	-	(1,079,138)
Payments under finance lease contracts (principal)	*22*	(8,371)	(9,434)	-	-	(9,434)
Dividends paid	*21*	-	(94,653)	-	-	(94,653)
Redemption of debt securities	*22*	(88,360)	(211,388)	-	-	(211,388)
Interest paid		(65,775)	(82,744)	-	-	(82,744)
Net cash from financing activities		(515,610)	(141,146)	-	-	(141,146)
Total net cash flows		(7,216)	4,661	-	-	4,661
Cash and cash equivalents at beginning of period		13,812	9,151	-	-	9,151
Cash and cash equivalents at end of period		6,595	13,812	-	-	13,812

The above changes in accounting policies had an effect on the restatement of data in the following notes:

4. Reporting and geographical segments
9. Finance income and costs
10. Income tax
11. Current and non-current items of the statement of financial position
14. Investments in subsidiaries
15. Investments measured at amortised cost
16. Deferred tax
17. Inventories
18. Trade and other receivables
21. Earnings per share
28. Management of risk arising from financial instruments
29. Related-party transactions

Enhancing comparability

- The Company has broken down revenue items in the separate statement of profit or loss. The data presented in the separate financial statements issued for the period January 1st 2019−December 31st 2019 was restated to ensure comparability.

  For better understanding of the effects of the restatement, the table below presents the restated data disclosed as Revenue from purchased debt portfolios in Note 5:

	Originally reported		**Restated**				
	Dec 31 2019	**change of presentation**	**Interest income on debt portfolios and loans measured at amortised cost**	**Other income/expenses from purchased debt portfolios**	**Gain/(loss) on expected credit losses**	*including revision of recovery projections*	*including deviation from actual recoveries, reductions due to early repayment of targets*
Revenue from purchased debt portfolios							
Interest income	**20,263**	(20,263)	**20,263**	-	-	-	-
Other income from purchased debt	**6,232**	(6,232)	-	-	**6,232**	-	*6,232*
Foreclosure of property	**4**	(4)	-	-	**4**	-	*4*
Revaluation of debt portfolios							
Revision of repayment projections	**14,023**	(14,023)	-	-	**14,023**	*14,023*	
Foreign exchange gains/(losses)	**(957)**	957	-	**(957)**	-	-	-
Gain/(loss) on sale/revaluation of property	**(3,978)**	(3,978)			**(3,978)**		*(3,978)*
	35,587	(43,543)	**20,263**	**(957)**	**16,281**	*14,023*	*2,258*

Revenue from the provision of other services, which includes revenue from credit management services, revenue from other services and revenue from sale of merchandise and materials, was taken from Revenue and presented as a separate item.

The effect of the change on the separate statement of profit or loss is presented below.

	Dec 31 2019 **Originally reported**	**Change of presentation**	**Dec 31 2019** **Data restated to ensure comparability**
Revenue	**174,676**	-174,676	-
Interest income on debt portfolios measured at amortised cost	-	-	20,263
Gain/(loss) on expected credit losses from purchased debt portfolios	-	-	(957)
Other income/expenses from purchased debt portfolios	-	-	139,089
Revenue from provision of other services	-	-	16,281
			174,676

- In order to better reflect the economic substance, the Company changed the presentation of assets and liabilities in the separate statement of financial position by taking hedging instruments from the Derivatives item and disclosing them as a separate item, by taking the provision for retirement gratuities from employee benefit obligations and provisions and disclosing it as a separate item, and by taking the loyalty scheme provision from trade and other payable and disclosing it as a separate item.

In the Management Board's opinion, the separate presentation of these line items will enhance the quality of data presented and its usefulness to readers. The data presented in the separate financial statements for the period January 1st 2019−December 31st 2019 was restated to ensure comparability. The effect of the change on the statement of financial position is presented below.

PLN '000	**Dec 31 2019** **Originally reported**	**Change of presentation**	**Dec 31 2019** **Data restated to ensure comparability**
Assets			
Derivatives	4,219	(399)	3,820
Hedging instruments	-	399	399
Liabilities			
Derivatives	3,924	(3,924)	-
Hedging instruments	-	3,924	3,924

PLN '000	**Jan 1 2019** **Originally reported**	**Change of presentation**	**Jan 1 2019** **Data restated to ensure comparability**
Liabilities			
Derivatives	3,870	(3,870)	-
Hedging instruments	-	3,870	3,870

PLN '000	**Dec 31 2019** **Originally reported**	**Change of presentation**	**Dec 31 2019** **Data restated to ensure comparability**
Liabilities			
Employee benefit obligations and provisions	21,323	(628)	20,695
Provision for retirement gratuities	-	628	628
Trade and other payables	73,882	(6,825)	67,056
Provision for the loyalty scheme	-	6,825	6,825
Provisions	-	7,454	7,454

PLN '000	**Jan 1 2019** **Originally reported**	**Change of presentation**	**Jan 1 2019** **Data restated to ensure comparability**
Liabilities			
Employee benefit obligations and provisions	19,199	(124)	19,075
Provision for retirement gratuities	-	124	124
Trade and other payables	62,948	(7,392)	55,556
Provision for the loyalty scheme	-	7,392	7,392
Provisions	-	7,516	7,516

3.2. Foreign currencies

3.2.1. Foreign currency transactions

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

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

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

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

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

3.2.2. Translation of foreign operations

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

3.3. Financial instruments

3.3.1. Financial assets

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

- measured at amortised cost,
- at fair value through other comprehensive income,

- at fair value through profit or loss.

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 minim is 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.

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

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

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

1. The following assets are measured at amortised cost:

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

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

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

2. At fair value through 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

Investments in debt portfolios

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

The Company's business model for 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 credit risk-adjusted effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred increased by any material transaction costs which can be directly allocated.

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

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

The estimated cash flows are primarily based on:

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

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

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

For the purpose of analyses and recovery projections, retail debt portfolios are grouped. Recovery projections are prepared for separate projection groups rather than for individual portfolios. There are 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 date of debt portfolio purchase for the Company.

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

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

<u>Loans</u>

Loans are 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 with maturities exceeding 12 months from the reporting date are classified under non-current assets.

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

With reference to the requirements of IFRS 9, the Company applies three main buckets for recognising expected credit losses:

- Basket 1 (stage 1) – includes receivables for which no significant increase in credit risk and no impairment (no past-due events) have been identified from the date of recognition. Expected credit losses on such receivables are recognised for a time horizon of the next 12 months.

- Basket 2 – includes receivables for which there has been a significant increase in credit risk between the date of recognition and the reporting date (past-due event), but no impairment has been identified. For such receivables, expected lifetime losses are recognised.
- Basket 3 – includes receivables in the case of which impairment has been identified (where the receivable is past due by over 90 days). For such receivables, expected lifetime losses are recognised.

Financial assets at fair value through profit or loss

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

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

b) it is designated as such upon initial recognition.

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

Trade and other 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. Receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

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

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

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

Impairment of trade and other receivables

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

To assess whether the credit risk increase for financial assets 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 client,
- • 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 baskets for the recognition of expected credit losses:

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

- Basket 3 – includes receivables in the case of which impairment has been identified (receivables past due by over 90 days). For such receivables, expected lifetime credit losses are recognised.

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

Financial liabilities other than derivative instruments

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

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

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

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

Financial liabilities are not reclassified.

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

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

Trade and other payables

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

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

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

Offsetting of financial assets and liabilities

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

Fair value for the purpose of disclosure in the financial statements

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

3.3.4. Derivative instruments and hedge accounting

Hedge accounting

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

a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
b) at the inception of the hedging relationship, the entity has formally designated and documented the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the 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, where the hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument). 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 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 no longer meets the risk management objective, expires, is sold or terminated, or where an economic relationship between the hedged item and the hedging instrument no longer exists, or the credit risk starts to dominate the value changes that result from that economic relationship.

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

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

Cash flow hedges

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

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

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

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

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

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

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

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

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

Hedging of a net investment in a foreign operation

In 2019, the Company started to apply hedge accounting for a net investment in a foreign operation. Hedge accounting for a net investment in a foreign operation consists in hedging interests in net assets of a consolidated foreign operation.

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

Calculation of the permitted hedged item does not include those monetary items (intra-group receivables and/or liabilities between the Company and the foreign subsidiary) that have a specified maturity date (i.e. they will be converted into receivables/payables at a specified future date (including trade receivables/payables, receivables/payables under collected debts, resale of shares etc.).
In order to increase the economic effectiveness of the hedge, the Company designated hedging relationships with a monthly frequency, i.e. each FX Forward/FX Swap transaction with a one-month maturity was linked to a designated hedged item for one month, assuming that the nominal portion of the net investment designated as the hedged item is fixed during the month.
The Company measures the ex-ante effectiveness as at the date of establishing the hedging relationship and as at each subsequent effectiveness measurement date (the end date of the reporting period).
As part of a prospective assessment of hedge effectiveness, the Company checks whether the following three conditions for establishing and maintaining a hedging relationship are met:

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

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

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

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

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

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

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

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

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

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

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

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

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

3.4. Property, plant and equipment

3.4.1. Recognition and measurement

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

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

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

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

Gain or loss on disposal of an item of property, plant and equipment is estimated as the difference between the disposal proceeds and the carrying amount of the disposed item, and is recognised in 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. Land is not depreciated.

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

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

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

3.4.4. Right of use and lease liabilities

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

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

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

Lease liabilities are measured at amortised cost.

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

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

and

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

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

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

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

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

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

and

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

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

3.5. Inventories - Properties held for resale

As a result of the reclassification made, property foreclosed through debt recovery is now recognised by the Company under 'Inventories'.

The Company forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held to generate future income from sale in order to recover debt. 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 indebted person's debt. Property is initially measured at cost, including transaction costs. Subsequent to initial recognition, property is measured at the lower of cost and net realisable value.

Property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the sale proceeds is recognised in profit or loss of the period as gain/(loss) on expected credit losses.

3.6. Intangible assets

3.6.1. Intangible assets

Other acquired or internally produced intangible assets with finite useful economic lives are recognised at cost, 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

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

3.6.3. Amortisation

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

Amortisation 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, licences, permits	5 years
Development expense	1-5 years

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

3.6.4. Assets amortised over time and intangible assets under development

The Company recognises expenditure related to the long-term process of generating intangible assets (especially expenditure on development of computer systems) as assets amortised over time. 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 3.11.1.
- debt portfolios measured at amortised cost (for policies applied in the valuation of such portfolios, see notes 3.3.1 and 3.11.1.

3.8. Investments in subsidiaries

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

A gain/(loss) on disposal transactions (sale price less the value recognised through the equity method) is recorded in the statement of profit or loss as a gain or loss on disposal of shares in subsidiaries.

3.9. Cash and cash equivalents

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

3.10. Other assets

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

3.11. Impairment losses on assets

3.11.1. Financial assets

The Company measures investments in debt portfolios at amortised cost with expected credit loss.

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

According to the description of baskets for the recognition of expected credit losses presented in section 3.3.2, in the case of receivables objective indications of impairment include non-payment or arrears in repayment of debt by an indebted person; breach of the contract; and circumstances indicating high probability of the indebted person's bankruptcy.

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

Recognition and reversal of impairment losses on loans are presented on a net basis in the statement of profit or loss 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 the net carrying amount of 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.

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

3.11.2. Non-financial assets

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

3.12. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Company's Articles of Association and registered with the National Court Register. Shares issued and not yet registered with the National Court Register as at the reporting date are recognised under equity. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

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

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

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

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

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

The policy applied to measure trade payables, borrowings, other debt securities and leases is described in note 3.3.3.

3.14. Employee benefits

3.14.1. 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 item under other receivables to the extent that the prepayment will lead to a reduction in future payments or a cash refund. Contributions to a defined contribution plan that fall due within more than twelve months after the period in which the employee rendered the related service are discounted to their present value.

3.14.2. Employee benefit obligations

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

Short-term employee benefits

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

Long-term employee benefits

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

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

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

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

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

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

3.15. Provisions

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

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

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

3.16. Revenue

3.16.1. Revenue from debt collection

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

Revenue from purchased debt portfolios

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

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

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

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

Revenue from credit management services

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

The Company does not capitalise the costs of concluding a credit management contract.

3.16.2. Revenue from provision of other services

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

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

3.17. Other income

Other income comprises operating income not directly related to the Company's main business objects. These include in particular income from sale and liquidation of property, plant and equipment, income/expenses from recharged services, damages received and paid, penalties and fines, and grants received.

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

3.18. Services

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

The costs of services are charged to current period expenses.

3.19. Employee benefits expense

Employee benefits expense includes:

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

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

3.20. Other expenses

Other expenses include:

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

3.21. Lease payments

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

3.22. Finance income and costs

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

Finance costs include interest expense related to external financing, derivatives and hedging instruments. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method. Foreign exchange gains and losses are posted in net amounts.

3.23. Income tax

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

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

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

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither profit or loss of the period, nor taxable income,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be disposed of in the foreseeable future,
- initial recognition of goodwill.

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

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

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

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

3.24. Earnings per share

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

3.25. Segment reporting

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

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

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

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2020 and have not been applied in preparing these separate financial statements. From among the new Standards, amendments to Standards and Interpretations, the ones discussed below may have an effect on the Company's financial statements. The Company intends to apply them to the periods for which they are effective for the first time.

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

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the "EU IFRS") apply to reporting periods beginning on or after January 1st 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 IFRS 4 *Insurance Contracts*	The amendments extend the temporary exemption from IFRS 9 Financial Instruments by two years to annual periods beginning on January 1st 2023, for alignment with the effective date of IFRS 17 Insurance Contracts (replacing IFRS 4 Insurance Contracts).	The amendments have no significant effect on the separate financial statements. .	January 1st 2021
COVID-19-Related Rent Concessions amendments to IFRS 16 for lessees	The amendments allow lessees not to assess whether COVID-19-related rent concessions are a lease modification. Therefore, subject to fulfilment of relevant conditions, lessees who apply a practical expedient recognise rent concessions received on or	The amendments have no significant effect on the separate financial statements.	July 1st 2020

	before July 1st 2021 in profit or loss in the period when the concessions were granted. In the absence of a practical expedient, the concession would be recognised in profit or loss during the term of the lease contract.		
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* IFRS 4 *Insurance Contracts* and IFRS 16 *Leases: Interest Benchmark Reform – Phase 2*	The purpose of the amendments is to facilitate the provision of financial statements to users and to assist entities preparing IFRS-compliant financial statements to provide useful information in a case where a change in the benchmark rate results in a change in contractual cash flows or hedging relationships. The amendments provide for a practical expedient for certain changes in contractual cash flows and exemption from certain hedge accounting requirements.	The amendments have no significant effect on the separate financial statements.	January 1st 2021

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

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
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.	*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 2023

Standards and Interpretations not yet endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on or after**
	investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.		
Amendments to IFRS 3 *Business Combinations*, IAS 16 *Property, Plant and Equipment*, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as well as Annual Improvements to IFRSs 2018-2020 Cycle.	The package of amendments includes narrow-scope amendments to three standards: • Amendments to IFRS 3 *Business Combinations,* which update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations; • Amendments to IAS 16 *Property, Plant and Equipment,* which prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use; Instead, the company will recognise such sale proceeds and related cost in profit or loss for the period, • Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* which specify which costs a company should include when assessing whether a contract will be loss-making. The package also contains Annual Improvements to IFRSs 2018-2020 Cycle, which explain the terminology used and correct minor inconsistencies, omissions or contradictions between the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and Illustrative Examples in IFRS 16 *Leases*.	The Company does not expect the amendments to have any significant effect on its separate financial statements.	January 1st 2022

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 main geographical segments based on the scale and place of operations:

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

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

Reportable segments

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

	Poland	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	**111,759**	**25,699**	**949**	**3,898**	**-**	**142,305**
Purchased debt portfolios	4,473	23,973	-	1,733	-	**30,179**
Credit management services	88,057	-	-	-	-	**88,057**
Other products	19,229	1,726	949	2,165	-	**24,068**
Direct and indirect costs						**(100,215)**
Purchased debt portfolios	-	-		-		**(11,108)**
Credit management services	-	-		-		**(86,545)**
Other products	-	-		-		**(2,562)**
Gross profit[1]						**42,090**
Purchased debt portfolios	-	-		-		**20,982**
Credit management services	-	-		-		**1,499**
Other products	-	-		-		**19,608**
Administrative expenses	-	-		-		**(83,698)**
Other income/expenses	-	-		-		**5,949**
EBITDA[2]	**(20,518)**	**17,069**	**(1,559)**	**(76)**	**(30,576)**	**(35,659)**
	-	-		-		
Depreciation and amortisation						**(17,995)**
Finance income/costs	-	-		-		**(79,219)**
	-	-		-		
Share of profit/(loss) of equity-accounted investees						**325,386**
Profit before tax	-	-		-		**192,513**
Income tax	-	-		-		**(111,158)**
Net profit						**81,356**
Carrying amount of debt portfolios	**6,643**	**24,906**		**1,781**		**33,329**
Cash recoveries	**6,914**	**27,164**		**1,825**		**35,904**

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

	Poland	Romania	Italy	Other foreign markets	Head Office	TOTAL
Revenue	**131,112**	**37,450**	**1,135**	**4,979**	**-**	**174,676**
Purchased debt portfolios	2,031	32,006	-	1,550	-	**35,587**
Credit management services	107,819	-	-	-	-	**107,819**
Other products	21,262	5,444	1,135	3,429	-	**31,270**
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)**
Other income/expenses	-	-		-		**(4,528)**
EBITDA2	**(15,869)**	**27,569**	**(1,778)**	**(645)**	**(49,053)**	**(39,777)**
Depreciation and amortisation	-	-		-		**(18,823)**
Finance income/costs	-	-		-		**(63,750)**
Share of profit/(loss) of equity-accounted investees						**438,529**
Profit before tax	-	-		-		**316,179**
Income tax	-	-		-		**(39,790)**
Net profit	-	-		-		**276,390**
Carrying amount of debt portfolios	6,965	28,112		1,873		**36,949**
Cash recoveries	7,099	32,521		1,794		**41,415**

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

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

Breakdown by reportable segments

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Revenue from credit management services	88,057	107,819
Revenue from purchased debt portfolios	30,179	35,587
Revenue from other services	23,968	30,762
Revenue from sale of merchandise and materials	100	508
	142,305	174,676

Revenue from purchased debt portfolios

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

	Jan 1–Dec 31 2020	**Jan 1–Dec 31 2019**
Interest income on debt portfolios measured at amortised cost	17,887	20,263
Other income/expenses from purchased debt portfolios	1,471	(957)
Gain/(loss) on expected credit losses	10,820	16,281
	30,179	35,587

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

	Jan 1–Dec 31 2020	**Jan 1-Dec 31 2019**
Deviation of actual recoveries, decreases on early collections in collateralised cases	4,661	2,258
Revision of recovery projections	6,159	14,023
	10,820	16,281

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

- risk premium,
- period for which cash flows have been estimated,

- the value of expected future cash flows estimated based on current data and currently used debt collection tools.

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

Assumptions adopted in the valuation of debt portfolios

	Dec 31 2020	**Dec 31 2019**
Discount rate		
- risk premium	28.11% - 170.19%	23.65% - 170.19%
Period for which collections have been estimated	Jan 2021–Dec 2035	January 2020 - December 2032
Undiscounted value of future recoveries	87,508	80,919

The forecast period was extended based on historical analyses of realised and expected recoveries from the oldest debt portfolios purchased by the Company.

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

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Period		
Up to 12 months	25,554	29,942
From 1 to 2 years	17,715	20,192
From 2 to 3 years	12,592	12,711
From 3 to 4 years	8,936	7,689
From 4 to 5 years	6,372	4,513
From 5 to 10 years	13,016	5,858
Over 10 years	3,325	13
	87,508	80,919

Other income/expenses from purchased debt portfolios

	Jan 1–Dec 31 2020	**Jan 1–Dec 31 2019**
Foreign exchange gains/(losses)	1,471	(957)
	1,471	(957)

Revenue from provision of other services

	Jan 1–Dec 31 2020	Jan 1–Dec 31 2021
Revenue from credit management services	88,057	107,819
Revenue from other services	23,968	30,762
Revenue from sale of merchandise and materials	100	508
	112,126	139,089

<u>*Revenue from credit management services*</u>

Revenue from credit management comprises commission fees ranging from 2% to 49% of the collected debts. Fee rates depend on delinquency periods, amounts outstanding, and on whether there have been any prior collection attempts. The Company's main third-party client accounts for 2% of revenue from credit management services, and in the group of related entities – for 92.8% (2019: 2%, 86.9%).

<u>*Revenue from other services*</u>

Revenue from other services comprises marketing support, human resources and IT support services.

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

Other income

PLN '000	*Note*	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Grants[1]		8,469	-
Adjustment to the management stock option valuation model[2]		5,538	-
Settlement of lease payments under terminated contracts		1,050	-
Gain/(loss) on sale of property, plant and equipment		813	-
Compensation for motor damage		374	618
Rent concessions related to COVID-19		250	
Other		101	276
Reversal of impairment losses on receivables	28.1	17	-
Receivables written off		-	799
		16,613	1,693

[1] In the reporting period, Kruk S.A. received grants from the Labour Office paid out of the Guaranteed Employee Benefits Fund under the employment protection agreement to subsidise the remuneration of employees affected by economic downtime or reduced working hours as a result of the COVID-19 epidemic. In accordance with IAS 2 Accounting for Government Grants and Disclosure of Government Assistance, the Company applies the income approach, recognising grants as a separate item of other income when there is reasonable assurance that the condition for obtaining a grant will be fulfilled and the grant will be received.

[2] Other income reflects an adjustment of PLN 5,538 thousand for inclusion of dividends paid in the management stock option valuation model. The adjustment amount, considered immaterial, affected profit for the current period.

6. Services

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
IT services	(8,942)	(7,378)
Credit management services	(8,642)	(10,346)
Postal and courier services	(3,270)	(4,164)
Consultancy services	(3,203)	(2,502)
Space rental and service charges	(2,653)	(3,121)
Communications services	(2,424)	(2,550)
Repair of vehicles	(1,005)	(1,054)
Banking services	(965)	(1,028)
Other auxiliary services	(923)	(1,136)
Security	(665)	(635)
Printing services	(449)	(554)
Marketing and management services	(309)	(177)
Packing services	(174)	(294)
Recruitment services	(161)	(471)
Repair and maintenance services	(144)	(184)
Transport services	(13)	(31)
Other rental	(2)	(28)
	(33,946)	(35,655)

7. Other expenses

PLN '000	*Note*	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Taxes and charges		(11,690)	(12,791)
Raw materials and consumables used		(3,315)	(5,640)
Other		(1,824)	(958)
Motor insurance		(1,063)	(912)
Advertising		(844)	(1,598)
Court fees		(719)	(514)
Staff training		(596)	(2,284)
Re-billed costs of services		(479)	(1,124)
Losses caused by motor damage		(417)	(712)
Impairment losses on receivables	28.1	(373)	(151)
Non-competition		(352)	(367)
Business trips		(294)	(1,802)
Property insurance		(223)	(257)
Refund of litigation costs		(222)	(616)
VAT on rental payments (leases and rents)		(169)	(431)
Membership fees		(155)	(180)
Entertainment expenses		(71)	(740)
Donations		(12)	-
Accumulated amortisation of receivables		-	(10)
Other consultancy services		-	(493)
Loss on sale of property, plant and equipment		-	(27)
		(22,818)	(31,606)

8. Employee benefits expense

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Salaries and wages	(108,746)	(111,915)
Old-age and disability pension contributions (defined contribution plans)	(16,503)	(17,209)
Other social security contributions	(7,058)	(8,945)
Equity-settled cost of stock option plan	(4,382)	(9,658)
Contribution to the State Fund for the Disabled	(1,122)	(1,159)
	(137,812)	(148,885)

9. Finance income and costs

Recognised as profit or loss for the period

Finance income

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Interest income on loans advanced and receivables	20,507	13,836
Gain/(loss) on settlement of discount	-	(93)
Interest income on bank deposits	27	82
Net foreign exchange losses	-	452
	20,534	14,277

Finance costs

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Interest and commission expense on financial liabilities measured at amortised cost	(67,087)	(82,268)
including interest	*(61,824)*	*(82,267)*
Interest income/expense on derivative instruments – CIRS	(13,759)	2,369
Net foreign exchange losses	(14,485)	-
Interest income/expense on hedging instruments – IRS	(4,422)	1,872
	(99,753)	(78,027)

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 2020**	**Jan 1-Dec 31 2019**
Total interest income on financial assets	20,534	13,917
Total interest expense on financial liabilities	(66,270)	(80,395)

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

PLN '000	*Note*	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Revaluation of debt portfolios due to exchange rate movements	5	1,471	(957)
Realised exchange gains/(losses)	9	(2,944)	(5,573)
Unrealised exchange gains/(losses)	9	(11,541)	6,025
		(13,014)	(505)

10. Income tax

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

PLN '000

	Note	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Income tax (current portion recognised in profit or loss)			
Income tax		(17,163)	(13,257)
Income tax (deferred portion recognised in profit or loss)			
Temporary differences/reversal of temporary differences	16	(93,996)	(26,533)
Income tax recognised in profit or loss		(111,158)	(39,790)

Reconciliation of effective tax rate

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019 Restated**
Profit/(loss) before tax	192,513	316,179
Income tax recognised in profit or loss	(111,158)	(39,790)
Profit/(loss) before tax for the period (at 19% tax rate)	192,513	316,179
Tax calculated at the tax rate applicable in Poland (19%)	(36,577)	(60,074)
Effect of non-deductible expenses and deferred tax changes[1]	(74,581)	20,284
	(111,158)	(39,790)
Effective tax rate	57.74%	12.58%

[1] *Of which PLN 121,887 thousand was recognised on account of deferred tax liabilities resulting from a change in the planned distribution of income from subsidiaries to KRUK S.A. over the next 36 months, accounting for 90% of the effect on the effective tax rate for the period January 1st – December 31st 2020 (PLN 29,957 thousand for January 1st – December 31st 2019).*

Tax risk

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

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

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

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

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

As at Dec 31 2020
PLN '000

	Note	Dec 31 2020	Dec 31 2019 Restated	Jan 1 2019 Restated
Assets				
Non-current assets				
Property, plant and equipment	*12*	37,521	34,944	16,169
Intangible assets	*13*	12,841	15,084	16,547
Derivatives	*24*	-	3,820	1,450
Hedging instruments	*23*	-	399	-
Equity-accounted investments in subsidiaries	*14*	3,315,459	3,352,745	3,320,121
Investments in debt portfolios and loans	*15*	283,957	307,109	15,606
Total non-current assets		3,649,778	3,714,101	3,369,893
Current assets				
Inventories	*17*	28,755	30,294	27,260
Investments in debt portfolios and loans	*15*	36,563	36,818	134,061
Trade receivables from related entities	*18*	20,594	25,435	21,814
Trade receivables from other entities	*18*	2,640	3,365	2,811
Other receivables	*18*	7,869	54,597	7,223
Cash and cash equivalents	*19*	6,595	13,812	9,151
Other assets		5,956	4,683	4,173
Total current assets		108,972	169,004	206,492
Total assets		3,758,750	3,883,104	3,576,386
Equity and liabilities				
Equity				
Share capital	*20*	19,011	18,972	18,887
Share premium		310,430	307,192	300,097
Hedging reserve		(14,783)	78	(3,869)
Translation reserve		81,360	(30,219)	(53,769)
Other capital reserves		103,626	104,582	94,924
Retained earnings		1,544,127	1,557,821	1,376,084
Total equity		2,043,771	1,958,426	1,732,354
Non-current liabilities				
Deferred tax liability	*16*	134,249	40,254	13,722
Provisions	*26*	11,156	504	7,392
Borrowings, other debt securities and leases	*22*	884,146	1,593,983	1,458,736
Derivatives	*24*	11,236	3,924	-
Hedging instruments	*23*	18,386	-	3,870
Total non-current liabilities		1,059,173	1,638,665	1,483,719
Current liabilities				
Provisions	*26*	124	124	124
Borrowings, other debt securities and leases	*22*	577,997	190,623	273,262
Trade and other payables	*27*	51,863	73,882	55,556
Income tax payable		4,358	690	12,295
Employee benefit obligations	*25*	21,464	20,695	19,075
Total current liabilities		655,806	286,013	360,312
Total liabilities		1,714,979	1,924,678	1,844,032
Total equity and liabilities		3,758,750	3,883,104	3,576,386

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

12. 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 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
Gross carrying amount as at Jan 1 2020	22,108	25,955	23,787	601	184	72,635
Purchase	12,859	2,639	826	-	890	17,214
Sale/ liquidation	-	(408)	(5,608)	(16)	(872)	(6,903)
Gross carrying amount as at Dec 31 2020	34,967	28,186	19,005	585	202	82,945

PLN '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						
Accumulated depreciation 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 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
Accumulated depreciation as at Jan 1 2020	(5,802)	(17,285)	(14,231)	(372)	-	(37,690)
Depreciation	(5,887)	(4,519)	(2,161)	(42)	-	(12,609)
Decrease resulting from sale/ liquidation	(1)	412	4,447	16	-	4,874
Accumulated depreciation as at Dec 31 2020	(11,689)	(21,393)	(11,944)	(398)	-	(45,425)

As of December 31st 2020 and December 31st 2019 the Company did not recognise any impairment losses on 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
Net carrying amount						
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
As at Jan 1 2020	16,306	8,670	9,556	229	184	34,944
As at Dec 31 2020	23,277	6,794	7,061	187	202	37,521

Right of use and lease liabilities

PLN '000	Dec 31 2020	Dec 31 2019
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	15,768	17,183
Plant and equipment	251	418
Vehicles	9,553	8,681
	21,994	26,282
Cost of amortisation of right-of-use assets, by class of underlying asset		
Buildings and structures	(5,682)	(5,590)
Plant and equipment	(167)	(167)
Vehicles	(2,192)	(3,778)
	(8,041)	(9,535)
Increase in right-of-use assets	13,685	8,995
Decrease in right-of-use assets due to liquidation/termination of contract	300	(3,749)
Carrying amount of right-of-use assets, by class of underlying asset at the end of the reporting period		
Buildings and structures	22,945	15,768
Plant and equipment	83	251
Vehicles	4,665	5,975
	27,693	21,944
Interest expense relating to lease liabilities	865	628
Cost relating to variable lease payments not included in the measurement of lease liabilities	11	33
Total cash outflow in connection with leases	8,054	9,434

Decrease in costs of space rental and service charges in 2020 resulted from the implementation of IFRS 16 *Leases*, which resulted in recognition of rental costs as depreciation expense of PLN 5,849 thousand and finance costs under lease liabilities of PLN 865 thousand in the reporting period ended December 31st 2020 (PLN 5,757 thousand and PLN 628 thousand as at December 31st 2019). The item 'Space rental and service charges' in Note 6 comprises only service charges.

13. 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 2019	34,664	369	425	-	35,458
Produced internally	2,457	-	-	-	2,457
Purchase	1,077	-	-	976	2,053
Decreases as a result of liquidation	(7,904)	-	(356)	-	(8,260)
Gross carrying amount as at Dec 31 2019	30,294	369	69	976	31,708
Gross carrying amount as at Jan 1 2020	30,294	369	69	976	31,708
Produced internally	790	-	-	-	790
Purchase	298	-	-	2,347	2,644
Decreases as a result of liquidation	(2,485)	-	(69)	-	(2,554)
Gross carrying amount as at Dec 31 2020	28,897	369	-	3,323	32,589

PLN '000	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation and impairment losses					
Accumulated amortisation as at Jan 1 2019	(18,542)	(369)	-	-	(18,911)
Amortisation	(5,472)	-	-	-	(5,472)
Decreases as a result of liquidation	7,759	-	-	-	7,759
Accumulated amortisation as at Dec 31 2019	(16,255)	(369)	-	-	(16,624)
Accumulated amortisation as at Jan 1 2020	(16,255)	(369)	-	-	(16,624)
Amortisation	(5,386)	-	-	-	(5,386)
Decreases as a result of liquidation	2,262	-	-	-	2,262
Accumulated amortisation as at Dec 31 2020	(19,379)	(369)	-	-	(19,748)

As at December 31st 2020 and December 31st 2019, the Company did not recognise any impairment losses on intangible assets.

PLN '000	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2019	16,122	-	425	-	16,547
As at Dec 31 2019	14,039	-	69	976	15,084
As at Jan 1 2020	14,039	-	69	976	15,084
As at Dec 31 2020	9,519	-	-	3,323	12,841

14. Investments in subsidiaries

PLN '000	Country	Dec 31 2020	Dec 31 2019	Dec 31 2018
		Carrying amount of investments		
InvestCapital Ltd[1]	Malta	1,780,511	1,796,569	1,527,981
Prokura NS FIZ[1]	Poland	936,579	1,007,960	1,036,124
SeCapital S.à r.l.[1]	Luxembourg	241,417	161,425	304,362
Presco Investments S.a.r.l.[3]	Luxembourg	79,384	115,640	148,617
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	59,707	46,560	28,489
KRUK Espana S.L.	Spain	39,772	67,767	74,250
KRUK Italia S.r.l [4]	Italy	36,339	20,028	18,847
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	31,713	31,183	20,200
Kancelaria Prawna RAVEN P.Krupa Sp. k.	Poland	22,838	14,849	20,976
KRUK Romania S.r.l.	Romania	20,186	10,209	26,158
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	18,077	20,247	21,118
Novum Finance Sp. z o.o.	Poland	12,095	11,813	20,665
ERIF Biuro Informacji Gospodarczej S.A.	Poland	9,904	10,170	10,896
KRUK Deutschland GmbH	Germany	9,772	20,380	29,658
AgeCredit S.r.l.	Italy	9,303	10,530	17,653
RoCapital IFN S.A. [1]	Romania	7,456	7,083	8,266
ProsperoCapital S.à r.l. [2]	Luxembourg	655	627	627
ERIF Business Solutions Sp. z o.o.	Poland	(252)	(296)	-
Zielona Perła Sp. z o.o.[5]	Poland	-	-	5,235
		3,315,459	**3,352,745**	**3,320,121**

[1] Subsidiaries in which the Company directly and indirectly holds 100% of the share capital.
[2] ProsperoCapital S.a.r.l is a party to a joint arrangement.
[3] The equity of P.R.E.S.C.O INVESTMENT I NS FIZ is consolidated within Presco Investments S.a.r.l.
[4] The equity of Elleffe Capital S.r.l. is consolidated within Kruk Italia S.r.l.
[5] On July 15th 2019, a transaction to sell the subsidiary Zielona Perła Sp. z o.o. was executed.

	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Value of investments in subsidiaries as at Jan 1	3,352,745	3,320,121
Increase/(decrease) (dividends, in-kind contributions, cancellations)	(478,995)	(447,073)
Share of profit/(loss) of equity-accounted investees	330,130	456,147
Translation reserve	111,579	23,550
Value of investments in subsidiaries as at Dec 31	3,315,459	3,352,745

In 2020, the Company was paid dividend by the following related entities:

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

In 2019, the Company was paid dividend by the following related entities:

- Presco Investments S.a.r.l. – PLN 48,513 thousand,
- Kancelaria Prawna RAVEN P.Krupa Sp. k. – PLN 19,849 thousand,
- Kruk Romania S.r.l. – PLN 14,635 thousand,
- Novum Finance Sp. z o.o. – PLN 10,065 thousand,
- ERIF Biuro Informacji Gospodarczej S.A. – PLN 3,002 thousand,
- Secapital S.a.r.l – PLN 34 thousand.

PLN '000	Country	Ownership interest (%) Dec 31 2020	Dec 31 2019
SeCapital S.à r.l.[1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o. (in liquidation)	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l.	Romania	100%	100%
Kancelaria Prawna RAVEN P.Krupa Sp. k.	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ [1]	Poland	100%	100%
InvestCapital Ltd[1]	Malta	100%	100%
RoCapital IFN S.A.[1]	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.L.	Spain	100%	100%
ProsperoCapital S.à r.l. [2]	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
P.R.E.S.C.O INVESTMENT I NS FIZ [1]	Poland	100%	100%
Elleffe Capital S.r.l.[1]	Italy	100%	100%
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	100%	100%
Corbul S.r.l[3]	Romania	-	-
Zielona Perła Sp. z o.o. [4]	Poland	-	100%
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	-
Gantoi, Furculita Si Asociatii S.p.a.r.l.[3,5]	Romania	-	n/a

[1] Subsidiaries in which the Company directly and indirectly holds 100% of the share capital.
[2] ProsperoCapital S.a.r.l is a party to a joint arrangement.
[3] The Parent controls the company through a personal link.
[4] On July 15th 2019, a transaction to sell the subsidiary Zielona Perła Sp. z o.o. was executed.
[5] A law firm established on October 1st 2020, with its registered office in Bucharest.

All the subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group as at December 31st 2020 and for the period from January 1st to December 31st 2020.

In 2020, the Parent reduced the contributions to the share capital of the subsidiary KRUK Deutschland Gmbh by PLN 6,095 thousand.

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

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

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

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

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

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

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

In 2019, the Parent reduced the contributions to the share capital of the subsidiary KRUK Deutschland 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 the subsidiary InvestCapital Ltd. by PLN 116,493 thousand.

In 2019, the Parent redeemed the certificates at the subsidiary 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 share of profit/(loss) of equity-accounted investees.

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 impairment tests which were performed did not indicate the need to recognise the loss allowance.

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

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

In 2019, weighted average cost of capital for the debt collection industry was 6.82%.

Country where the tested asset is present	Spain	Italy	Poland	Romania	Germany	Czech Republic
Weighted average cost of capital for the debt collection industry	6.00%	5.33%	5.09%	6.56%	3.82%	4.94%

The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period of 0.95%-2.61%, 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 in the country where the tested asset is present. The Company applied the weighted average cost of capital for the debt collection industry. To calculate cost of equity, the Company applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets.

15. Investments measured at amortised cost

PLN '000	**Dec 31 2020**	**Dec 31 2019 Restated**
Investments measured at amortised cost		
Investments in debt portfolios	33,329	36,949
Loans to related parties	287,191	306,977
	320,520	343,926

Investments in 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 2020**	**Dec 31 2019 Restated**
Investments in debt portfolios		
Unsecured portfolios	32,956	36,545
Secured portfolios	373	405
	33,329	36,949

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

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios).

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

Sensitivity analysis – revision of projections

The 1% increase in all projected collections would result in an increase in the value of portfolios and thus in net profit/(loss) for the reporting period by PLN 243 thousand, while the 1% decrease in all projected collections would result in a decrease in the value of portfolios, thus reducing net profit/(loss) by PLN 243 thousand for the data as at December 31st 2020 (a PLN 303 thousand increase/decrease, respectively, for the data as at December 31st 2019).

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	increase in collections by 100 bps	**decrease in collections by 100 bps**	**increase in collections by 100 bps**	**decrease in collections by 100 bps**
Dec 31 2020				
Investments in debt portfolios	243	(243)	-	-
Dec 31 2019				
Investments in debt portfolios	303	(303)	-	-

Sensitivity analysis – time horizon

The sensitivity analysis below assumes extension or shortening of the projection period and a simultaneous increase or decrease in collections projections (for one-year extension projected collections increased by PLN 0.1 thousand, while for one-year shortening projected collections decreased by PLN 0.1 thousand; 2019: PLN 5 thousand and PLN 154 thousand, respectively).

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	extension by one year	**reduction by one year**	**extension by one year**	**reduction by one year**
Dec 31 2020				
Investments in debt portfolios	-	-	-	-
Dec 31 2019				
Investments in debt portfolios	5	(154)	-	-

The discrepancy in the effect between periods is due to the longer time horizon used in the valuation of debt portfolios as at December 31st 2020. Extending the projection period by another year translates into a lower value compared with extension of a shorter baseline projection period by one year (due to the discount over time mechanism).

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

PLN '000

Value of purchased debt portfolios as at Jan 1 2019	38,800
Cash recoveries	(41,415)
Revenue from purchased debt portfolios	39,565
Carrying amount of purchased debt portfolios as at Dec 31 2019	**36,949**
Value of purchased debt portfolios as at Jan 1 2020	36,949
Purchase price adjustment for discount	(16)
Cash recoveries	(35,904)
Carrying amount of property sold	210
Revenue from purchased debt portfolios	32,090
Value of purchased debt portfolios as at Dec 31 2020	**33,329**

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

Loans to related parties

As at December 31st 2020, the gross carrying amount of loans advanced to related parties was PLN 310,886 thousand, and the loss allowance was PLN 23,695 thousand (December 31st 2019: PLN 328,358 thousand and PLN 21,381 thousand, respectively – restated data).

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 28.

Joint arrangements

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31st 2020, the value of the Company’s investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 81,953 thousand (PLN 96,936 thousand as at December 31st 2019), while gains shown in the statement of profit or loss were PLN 33,425 thousand (PLN 50,617 thousand as at December 31st 2019).

16. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Provisions		Net carrying amount	
	Dec 31 2020	Dec 31 2019 Restated	Dec 31 2020	Dec 31 2019 Restated	Dec 31 2020	Dec 31 2019 Restated
Property, plant and equipment	5,581	4,513	(5,659)	(4,775)	(78)	(263)
Intangible assets	-	-	(1,540)	(2,263)	(1,540)	(2,263)
Trade and other receivables	-	-	(268)	(243)	(268)	(243)
Borrowings and other debt instruments, leases	21,112	18,496	-	-	21,112	18,496
Employee benefit obligations	2,309	2,342	-	-	2,309	2,342
Provisions and liabilities	56	112	-	-	56	112
Investments in debt portfolios	-	-	(6,984)	(7,108)	(6,984)	(7,108)
Equity-accounted investments in subsidiaries	23,259	-	(172,116)	(51,328)	(148,857)	(51,328)
Deferred tax assets/liabilities	52,317	25,463	(186,567)	(65,717)	(134,249)	(40,254)
Deferred tax assets offset against liabilities	(52,317)	(25,463)	52,317	25,463	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	-	-	(134,249)	(40,254)

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 and it is probable that the temporary differences will not reverse in the foreseeable future.

For details of the decrease in provisions and liabilities, see Note 10.

Change in temporary differences in the period

PLN '000	**As at Jan 1 2020**	**Change in temporary differences recognised in profit or loss for current period**	**As at Dec 31 2020**	**As at Jan 1 2019 Restated**	**Change in temporary differences recognised in profit or loss for current period Restated**	**As at Dec 31 2019 Restated**
Property, plant and equipment	(263)	185	(78)	(253)	(10)	(263)
Intangible assets	(2,263)	723	(1,540)	(2,627)	364	(2,263)
Trade and other receivables	(243)	(25)	(268)	(142)	(101)	(243)
Borrowings and other debt instruments, leases	18,496	2,616	21,112	10,684	7,812	18,496
Employee benefit obligations	2,342	(33)	2,309	2,001	341	2,342
Provisions and liabilities	112	(56)	56	2,265	(2,153)	112
Investments in debt portfolios	(7,108)	124	(6,984)	(6,282)	(826)	(7,108)
Equity-accounted investments in subsidiaries	(51,327)	(97,530)	(148,857)	(19,367)	(31,960)	(51,327)
	(40,254)	(93,996)	(134,249)	(13,722)	(26,533)	(40,254)

The Group benefits from the regulation provided in IAS 12 and does not recognise a deferred tax liability in respect of retained earnings at its related entities where it is able to control the timing of the reversal of temporary differences in the foreseeable future and it is probable that the temporary differences will not reverse in the next 36 months. The total amount of temporary differences underlying the unrecognised deferred tax liability on retained earnings as at December 31st 2020 was PLN 1,205,363 thousand (as at December 31st 2019: PLN 1,250,455 thousand).

Unrecognised deferred tax asset due to tax loss

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

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2020**	**Dec 31 2019**
Tax loss for 2018	Dec 31 2023	29,836	29,836
Tax loss for 2019	Dec 31 2024	1,088	1,088
		30,924	30,924
Applicable tax rate		19%	19%
Potential benefit of tax losses		5,876	5,876

17. Inventories

The Company reclassified property previously recognised as Investment property measured at fair value, to Inventories measured at cost in accordance with the accounting policies. For information on the effect of reclassification, see Note 3.1.

PLN '000	**Dec 31 2020**	**Dec 31 2019 Restated**
Real property	28,755	30,279
Other inventories	-	15
	28,755	30,294

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

The amount of inventory write-down recognised as at December 31st 2020 was PLN 148 thousand (as at December 31st 2019: PLN 1,918 thousand).

PLN '000	
Carrying amount of property held as at Jan 1 2019	**27,238**
Carrying amount 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**
Carrying amount of property held as at Jan 1 2020	**30,279**
Carrying amount of foreclosed property	11,162
Proceeds from sale of property	(14,924)
Income from sale of property	2,237
Carrying amount of property held as at Dec 31 2020	**28,754**

18. Trade and other receivables

PLN '000	**Dec 31 2020**	**Dec 31 2019 Restated**
Trade receivables from related entities	20,594	25,435
Trade receivables from other entities	2,640	3,365
	23,234	28,800

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Other receivables from related entities	4,308	49,565
Other receivables from other entities	3,561	5,032
	7,869	54,597

For information on the Company's exposure to credit and currency risk, as well as impairment losses on receivables, see note 28.

19. Cash and cash equivalents

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Cash in hand	8	24
Cash in current accounts	6,588	13,789
	6,595	13,812

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

20. Equity

Share capital

'000	Ordinary shares Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Number of shares as at Jan 1	18,972	18,887
Issue of shares	39	85
Number of fully-paid shares at end of period	19,011	18,972

Company's shareholding structure

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

As at Dec 31 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	100.00%

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

As at December 31st 2020, the share capital comprised 18,972 thousand registered shares carrying voting rights and the right to dividend and 39 thousand unregistered shares (December 31st 2019: 18,972 thousand (registered shares)).

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.
Pursuant to a resolution of the Parent's General Meeting of August 31st 2020, the Parent's net profit for 2019 was allocated to capital reserves for buyback of KRUK S.A. shares and to statutory reserve funds. As a result, 271 thousand shares were bought back at PLN 350.00 per share.

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 was intended for the key management personnel of the Company and the other Group companies.
It was 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 obtained the right to acquire Series F Company shares on preferential terms set forth in the resolution. The eligible persons comprised members of the Management Board, including the President, as well as Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary, or in other legal relationship under which they provided services to the Parent or its subsidiary, for a period of at least twelve months in the calendar year preceding the year in which the offer to subscribe for subscription warrants is made.
For the purposes of the 2015–2019 Incentive Scheme, the General Meeting approved a conditional increase of the Company's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase was to grant the right to subscribe for Series F shares to holders of subscription warrants that would be issued under the 2015−2019 Incentive Scheme. Holders of the subscription warrants became entitled to exercise the rights to subscribe for Series F shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who were not Management Board members became entitled to exercise the rights to subscribe for Series F shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants could not be exercised by their holders

until the lapse of at least 12 months from the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.
Warrants were issued in five tranches, one for each of the following years of the reference period, i.e. for the financial years 2015–2019.
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.

	Dec 31 2020	**Dec 31 2019**
Number of options		
Number of options priced under the 2015–2019 Incentive Scheme at the beginning of the reporting period*:	837,976	818,208
Number of options priced under the 2015–2019 Incentive Scheme during the reporting period*:	35,400	19,768
Number of options priced under the 2015–2019 Incentive Scheme at the end of the reporting period*:	873,376	837,976
Number of options forfeited under the 2015–2019 Incentive Scheme during the reporting period**:	11,822	8,294
Number of options exercised under the 2015–2019 Incentive Scheme during the reporting period:	39,234	84,950
Number of options exercisable under the 2015–2019 Incentive Scheme at the end of the reporting period:	327,046	160,984
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.*
*** Options prices aer understood as options granted.*
**** Forfeited options are priced options that have not been delivered for reasons provided for in the Rules of the Incentive Scheme.*

In 2020, the average share price was PLN 123.08 (2019: PLN 162.59).

As at December 31st 2020 and December 31st 2019, the amount of liability under share-based payments was PLN 0.

For information on costs of the Incentive Scheme, see note 30.

Tranche 1
86,435 Tranche 1 Subscription Warrants for 2015 were issued to eligible persons other than members of the Management Board of KRUK S.A. on July 1st 2016.
On October 27th 2016, the Management Board members acquired 20,000 warrants under Tranche 1.

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.

Tranche 2

91,467 subscription warrants under Tranche 2 for 2016 were delivered on July 7th 2017 to eligible persons who were not Management Board members. On August 22nd 2017, 50,480 subscription warrants were delivered to the eligible Management Board members.

By the issue date of this report, 95,461 Tranche 2 warrants were converted into new Series F shares. 46,486 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 3

On July 3rd 2018, 85,853 Tranche 3 subscription warrants were issued to eligible persons other than members of the Management Board. On September 17th 2018, 54,344 subscription warrants were delivered to eligible Management Board members. By the issue date of this report, 55,035 Tranche 3 warrants were converted into new Series F shares. 85,162 Tranche 3 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 4

On August 27th 2019, 115,528 Tranche 4 subscription warrants were issued to eligible persons other than members of the Management Board. On September 10th 2019, Management Board members subscribed for 89,768 Tranche 4 warrants.

By the issue date of this report, 33,759 Tranche 4 warrants were converted into new Series F shares. 171,537 Tranche 4 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons.

Tranche 5

By resolution dated September 10th 2020, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 5 for 2019 had been satisfied. On September 14th 2020, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. On September 21st 2020, the Supervisory Board passed a resolution to approve the Management Board's Resolution No. 158/2020 containing the list of Management Board members eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 5 subscription warrants under the 2015−2019 Incentive Scheme. On September 24th 2020, 91,596 subscription warrants were delivered to eligible Management Board members.

On October 13th 2020 and October 23rd 2020, 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 5 subscription warrants for 2019 under the 2015−2019 Incentive Scheme. The Management Board decided to grant 120,390 subscription warrants to eligible persons other than Management Board members. Subscription warrants outstanding under Tranche 5 and not yet granted to eligible persons under the relevant resolution may be granted to eligible persons until the end of 2021 in accordance with Section 2.2 (e) of the

Incentive Scheme, as adopted by Resolution No. 23/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020.

As at December 31st 2020 and as at the date of issue of this report, the Management Board members hold no rights to KRUK S.A. shares other than those attached to the subscription warrants presented below.

Number of subscription warrants held by Management Board members as at Dec 31 2020

		Number of warrants held under:				
Name and surname	**Position**	**Tranche 1 for 2015**	**Tranche 2 for 2016**	**Tranche 3 for 2017**	**Tranche 4 for 2018**	**Tranche 5 for 2019**
Piotr Krupa	CEO and President of the Management Board	7,000	10,820	14,556	20,564	20,000
Piotr Kowalewski*	Member of the Management Board	2,003	2,003	2,003	2,003	6,596
Urszula Okarma	Member of the Management Board	3,250	9,915	9,947	17,301	16,250
Michał Zasępa	Member of the Management Board	-	-	9,947	17,301	16,250
Agnieszka Kułton**	Member of the Management Board	3,250	9,915	9,947	17,301	16,250
Iwona Słomska***	Member of the Management Board	-	-	9,947	17,301	16,250

** Piotr Kowalewski had been covered by the Incentive Scheme for 2015–2019 as an eligible person other than a member of the Management Board until May 28th 2020. Since May 29th 2020, when he assumed the position of member of the KRUK S.A. Management Board, Piotr Kowalewski has become entitled to acquire Tranche 5 subscription warrants as an eligible person being a member of the Management Board.*

*** Agnieszka Kułton, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until May 28th 2020.*

**** Iwona Słomska, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until July 31st 2020.*

Number of subscription warrants held by Management Board members as at December 31 2019

Name and surname	Position	Number of warrants held under Tranches 1, 2, 3 and 4 for 2015, 2016, 2017 and 2018
Piotr Krupa	CEO and President of the Management Board	52,940
Agnieszka Kułton	Member of the Management Board	40,413
Urszula Okarma	Member of the Management Board	40,413
Iwona Słomska	Member of the Management Board	27,248
Michał Zasępa	Member of the Management Board	27,248

21. Earnings per share

Basic earnings per share

As at December 31st 2020, basic earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,977 thousand (2019: 18,916 thousand). The amounts were determined as follows:

Separate net profit attributable to owners of the Company

PLN '000	**Jan 1-Dec 31 2020**	**Jan 1–Dec 31 2019 Restated**
Net profit for period	81,356	276,390
Net profit attributable to owners of the Company	81,356	276,390

Weighted average number of ordinary shares

'000	**Jan 1-Dec 31 2020**	**Jan 1–Dec 31 2019 Restated**
Number of ordinary shares as at Jan 1	18,972	18,887
Effect of cancellation and issue	5	29
Weighted average number of ordinary shares in the period ended Dec 31	18,977	18,916
PLN		
Earnings per share	4.29	14.61

Consolidated net profit attributable to owners of the Parent

As at December 31st 2020, basic consolidated earnings per share were calculated based on consolidated net profit attributable to owners of the Parent (holding ordinary shares) of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the weighted average number of shares in the period covered by the financial statements of 18,977 thousand (2019: 18,916 thousand). The amounts were determined as follows:

Consolidated net profit attributable to owners of the Parent

PLN '000	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Separate net profit attributable to owners of the Parent (basic)	81,356	276,390
Separate net profit attributable to owners of the Parent (diluted)	81,356	276,390

Weighted average number of ordinary shares

'000	Jan 1–Dec 31 2020	Jan 1–Dec 31 2019
Number of ordinary shares as at Jan 1	18,972	18,887
Effect of cancellation and issue of shares	5	29
Weighted average number of ordinary shares in the period ended Dec 31	18,977	18,916
PLN		
Earnings per share	4.29	14.61

Dividend per share paid

PLN '000	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Dividend paid from profit and retained earnings	-	94,040
PLN		
Dividend per share	-	5.00

Diluted separate earnings per share

As at December 31st 2020, diluted earnings per share were calculated based on net profit/loss attributable to owners of the Company (holding ordinary shares) of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the diluted weighted average number of shares in the period covered by the financial statements of 19,301 thousand (2019: 19,326 thousand). The amounts were determined as follows:

'000	Jan 1-Dec 31 2020	Jan 1–Dec 31 2019 Restated
Weighted average number of ordinary shares in the period ended Dec 31	18,977	18,916
Effect of issue of unregistered shares not subscribed for	283	410
Weighted average number of ordinary shares at end of reporting period (diluted)	19,260	19,326
PLN		
Earnings per share (diluted)	4.22	14.30

Diluted consolidated earnings per share

As at December 31st 2020, diluted earnings per share were calculated based on net profit attributable to ordinary shareholders of the Parent of PLN 81,356 thousand (2019: PLN 276,390 thousand) and the diluted weighted average number of shares in the period covered by the financial statements of 19,301 thousand (2019: 19,326 thousand). The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

'000	Jan 1-Dec 31 2020	Jan 1–Dec 31 2019
Weighted average number of ordinary shares in the period ended Dec 31	18,977	18,916
Effect of issue of unregistered shares not subscribed for	283	410
Weighted average number of ordinary shares at end of reporting period (diluted)	19,260	19,326
PLN		
Earnings per share (diluted)	4.22	14.30

22. 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 2020	Dec 31 2019
Non-current liabilities		
Secured borrowings	94,300	314,231
Liabilities under debt securities (unsecured)	769,933	1,267,601
Lease liabilities	19,913	12,151
	884,146	1,593,983
Current liabilities		
Secured borrowings	23,152	85,486
Liabilities under debt securities (unsecured)	544,314	93,575
Lease liabilities	10,531	11,562
	577,997	190,623
	1,462,143	1,784,605

The amount of realized and unrealized exchange differences affecting financial liabilities in 2020 and 2019 was PLN -18,710 thousand and PLN 876 thousand, respectively.

Liabilities repayment schedule

PLN '000	Currency	Nominal interest rate	Maturity[1]	Dec 31 2020	Dec 31 2019
Borrowings secured with the Company's assets	EUR/PLN	1M WIBOR + margin of 1.0-2pp 1M EURIBOR + margin of 2.2-2.4pp	2025	117,452	399,717
Liabilities under debt securities, (unsecured)	PLN EUR	3M WIBOR + margin of 3.0-4.0pp 4.80%[2] 3.59%	2025	1,314,247	1,361,175
Lease liabilities	PLN	3M WIBOR or 1M EURIBOR + margin of 1.5-9.7pp	2023	30,444	23,713
				1,462,143	1,784,605

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

Security over assets

PLN '000	Dec 31 2020	Dec 31 2019
Registered pledge over portfolios and assignment of claims financed with the facility, registered pledge over shares in Secapital S.a.r.l.	80,605	80,605
Property, plant and equipment used under lease contracts	7,057	9,553
	87,662	90,158

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

23. Hedging instruments

Derivatives designated for hedge accounting

Interest rate risk hedges

The Company's exposure to interest rate risk arises mainly from borrowings and debt securities issued (notes 22 and 28.5).

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

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

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

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

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

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

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

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

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

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

In 2019, the Company entered into six 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.

Open outstanding IRS contracts held by the Company as at December 31st 2020 and December 31st 2019, with a total volume of PLN 530,000 thousand:

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

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

Currency risk hedges

The Company's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (note 28.4).

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

As at December 31st 2020, 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.

The Company does not expect that the IBOR reform will have any significant effect on hedging relationships in hedge accounting.

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

Amounts related to items designated as hedging instruments

PLN '000	Dec 31 2020				Dec 31 2019					
	Assets	**Liabilities**	**Notional amount**	**Change in fair value used to determine ineffectiveness**	**Assets**	**Liabilities**	**Notional amount**	**Change in fair value used to determine ineffectiveness**	**Item in the statement of financial position**	**Type of security**
Instrument type:										
IRS	-	7,654	PLN 275,000	3,730	-	3,924	PLN 275,000	3,924	Hedging instruments	Cash flow hedges
IRS	-	10,732	PLN 255,000	11,131	399	-	PLN 255,000	399	Hedging instruments	Cash flow hedges
	-	**18,386**		**14,861**	**399**	**3,924**		**3,525**		

PLN '000

	Nominal amount as at Dec 31 2020				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	-	-	(275,000)	(255,000)	-
floating payment PLN	-	-	275,000	255,000	-

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	-

PLN '000

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

	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 (interest rate risk)	530,000	3,525	(3,525)	-
Hedging of a net investment in a foreign operation (currency risk)	-	4,477	-	3,603

PLN '000	Jan 1-Dec 31 2020		
Cash flow hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of future cash flows (currency risk)**	**Total hedge reserve**
Hedge reserve as at January 1st 2020	(3,525)	3,603	78
Measurement of instruments charged to capital reserves	(10,439)	-	(10,439)
Amount reclassified to profit or loss during the period	(4,422)	-	(4,422)
- Interest expense	(4,422)	-	(4,422)
- Reclassification of exchange differences	-	-	-
Hedge reserve as at Dec 31 2020	(18,386)	3,603	(14,783)

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 as at Jan 1 2019	(3,869)	-	(3,869)
Measurement of instruments charged to capital reserves	(1,216)	4,477	3,261
Amount reclassified to profit or loss during the period	1,560	(874)	686
- Interest income	1,560	-	1,560
- Reclassification of exchange differences	-	(874)	(874)
Hedge reserve as at Dec 31 2019	(3,525)	3,603	78

24. Derivatives

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).

Open outstanding CIRS contracts held by the Company as at December 31st 2020 and December 31st 2019:

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

Interest is paid every three months.
The Company expects cash flows to be generated and to have an effect on its results until 2021.

25. Employee benefit obligations

PLN '000	Dec 31 2020	Dec 31 2019
Salaries and wages payable	6,855	6,868
Social benefit obligations	6,395	6,391
Personal income tax	1,953	1,800
Liabilities under employee savings plans	255	-
Accrued holiday entitlements	5,909	5,421
Provision for severance pay	-	109
Special accounts	97	106
	21,464	20,695

Change in accrued holiday entitlements

Carrying amount as at Jan 1 2019	4,734
Increase	6,281
Use	(5,594)
Carrying amount as at Dec 31 2019	5,421
Carrying amount as at Jan 1 2020	5,421
Increase	6,210
Use	(5,722)
Carrying amount as at Dec 31 2020	5,909

26. Provisions

PLN '000	Dec 31 2020	Dec 31 2019
Provision for retirement gratuities	628	628
Provision for the loyalty scheme	10,652	6,825
	11,280	7,454

Changes in provisions for retirement gratuities

Carrying amount as at Jan 1 2019	124
Increase	504
Use	-
Carrying amount as at Dec 31 2019	628
Carrying amount as at Jan 1 2020	628
Increase	-
Use	-
Carrying amount as at Dec 31 2020	628

Changes in provision for the loyalty scheme

Carrying amount as at Jan 1 2019	7,392
Increase	115
Use	(681)
Carrying amount as at Dec 31 2019	6,825
Carrying amount as at Jan 1 2020	6,825
Increase	4,720
Use	(894)
Carrying amount as at Dec 31 2020	10,652

27. Trade and other payables

PLN '000	**Dec 31 2020**	**Dec 31 2019**
Trade and other payables to related entities	32,231	42,988
Trade payables to other entities	9,994	13,469
Deferred income	5,296	5,295
Other liabilities	2,832	2,690
Taxes, customs duties, insurance and other benefits payable	760	1,234
Accrued expenses	750	1,380
	51,863	67,056

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

28. Management of risk arising from financial instruments

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

- credit risk
- liquidity risk
- market risk.

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

Key policies of risk management

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Company's activities. Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

28.1. Credit risk

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

The Company defines concentration risk as a risk resulting from material exposure to individual entities or indebted persons whose capacity to repay debt depends on a common risk factor. The Company analyses concentration risk with respect to:

- indebted persons as part of the investment in debt portfolios;
- loan borrowers;
- business partners;
- geographical regions.

Trade and other receivables

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

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

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

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

The Company's exposure to credit risk results mainly from individual characteristics of each business partner. The Management Board believes that the Company's credit risk is low as its counterparties are mainly reputable financial institutions and companies. The Company's exposure to credit risk results mainly from individual characteristics of each client. The Company's largest trading partner (excluding the subsidiaries) accounts for 2% of the Company's revenue (2019: 2%), and the respective percentages for the Company's related entities are 92.8% and 86.9%. Receivables from the Company's largest third-

party trading partner accounted for 1.2% of total gross trade receivables as at December 31st 2020 (December 31st 2019: 3.2%); among the related entities the figures were 43% and 29.4%, respectively. Therefore, there is no significant concentration of credit risk.
The Company recognises impairment losses which represent its estimates of incurred expected credit losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

Investments in debt portfolios

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

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

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

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

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

• Indebted person:

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

• Debt processing by the previous creditor:

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans advanced to related entities

Loans advanced to related entities are not secured, but given that the loans are advanced to entities controlled by the Company their repayment is not exposed to any significant credit risk. The Company recognises impairment losses which represent its estimates of expected credit losses on loans advanced. Impairment losses comprise specific losses related to individually significant exposures.

Guarantees

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

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

PLN '000	**Dec 31 2020**	**Dec 31 2019 Restated**
Investments in debt portfolios	33,329	36,949
Loans to related parties	287,191	306,977
Trade and other receivables	31,103	83,397
	351,623	427,323

Exposure to credit risk

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

PLN '000	**Dec 31 2020**	**Dec 31 2019 Restated**
Poland	260,099	312,203
Romania	82,724	91,746
Czech Republic and Slovakia	8,800	23,374
	351,623	427,323

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 2020 (IFRS 9)**	**Carrying amount as at Dec 31 2019 (IFRS 9) Restated**
Trade and other receivables	Basket 1	31,103	83,397
	Basket 2	436	80
	Basket 3	-	-
		31,539	83,477
Impairment losses	Basket 1	-	-
	Basket 2	436	80
	Basket 3	-	-
		436	80
Net carrying amount	Basket 1	31,103	83,397
	Basket 2	-	-
	Basket 3	-	-
		31,103	83,397

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Loss allowance as at Jan 1	80	873
Loss allowance recognised in the period	373	18
Reversal of loss allowance	(17)	(798)
Use of loss allowance	-	(13)
Loss allowance as at Dec 31	436	80

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 2020−2019, the Company did not recognise any general impairment losses on receivables.

Below are presented changes in impairment losses on loans advanced to related parties:

IFRS 9 classification		**Carrying amount as at Dec 31 2020 (IFRS 9)**	**Carrying amount as at Dec 31 2019 (IFRS 9) Restated**
Loans to related parties	Basket 1	96,080	123,377
	Basket 2	213,151	203,347
	Basket 3	1,655	1,633
		310,886	328,358
Impairment losses	Basket 1	-	-
	Basket 2	(22,362)	(20,048)
	Basket 3	(1,333)	(1,333)
		(23,695)	(21,381)
Net carrying amount	Basket 1	96,080	123,377
	Basket 2	190,790	183,299
	Basket 3	322	300
		287,191	306,977

28.2. Liquidity risk

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

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

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

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

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

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

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

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2020
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	33,329	87,508	13,833	11,721	17,715	27,899	16,341
Secured borrowings	(117,452)	(99,196)	(573)	(582)	(1,155)	(96,886)	-
Liabilities under debt securities (unsecured)	(1,314,247)	(1,400,573)	(391,113)	(188,776)	(491,441)	(329,243)	-
Lease liabilities	(30,444)	(29,841)	(4,182)	(4,775)	(9,174)	(11,710)	-
Trade and other payables	(51,863)	(51,863)	(51,863)	-	-	-	-
	(1,480,677)	(1,493,964)	(433,897)	(182,412)	(484,056)	(409,940)	16,341

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)	-
Liabilities under debt securities (unsecured)	(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	(67,056)	(67,056)	(67,056)	-	-	-	-
	(1,814,712)	(1,969,377)	(109,803)	(131,686)	(587,544)	(942,240)	(198,104)

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

For information about risk fo hedging instruments, see note 23.

The Company defines the risk of liquidity concentration as a risk that arises from cash flows under individual financial instruments.

Contractual cash flows were determined based on interest rates effective as at December 31st 2019 and December 31st 2020, 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 2020, the undrawn revolving credit facility limit available to the Company was PLN 354,291 thousand (December 31st 2019: PLN 95,337 thousand). The limit is available until October 31st 2022.

28.3. Market risk

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

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

- the Company's objectives in terms of interest rate risk,
- methods of interest rate risk monitoring;

- the Company's permissible exposure to the interest rate risk,
- procedures in case of exceeding the Company's permissible exposure to the interest rate risk,
- interest rate risk management rules of the Company,

The currency risk management policy outlines:

- the Company's currency risk management objectives,
- the key rules of currency risk management at the Company;
- acceptable impact of currency risk on the 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 2020, assets denominated in foreign currencies accounted for 0.8% of total assets, while liabilities denominated in foreign currencies represented 5.4% of total equity and liabilities (December 31st 2019: 1.2% and 7.6%, respectively).

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

28.4. Currency risk

Exposure to currency risk

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

Exposure to currency risk

'000	**Dec 31 2020**			**Dec 31 2019**		
	EUR	**RON**	**CZK**	**EUR**	**RON**	**CZK**
Trade receivables	2	-	-	-	-	-
Cash	150	642	407	190	1,537	296
Investments in debt portfolios	224	27,078	1,557	194	28,112	1,679
Borrowings, other debt securities and leases	(202,480)	-	-	(212,412)	-	-
Trade payables	-	(13)	(0)	-	-	-
Exposure to currency risk	(202,104)	27,707	1,964	(212,029)	29,648	1,975

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

'000	Dec 31 2020			Dec 31 2019		
	EUR	RON	CZK	EUR	RON	CZK
Trade receivables	-	-	-	-	-	-
Cash	15	64	41	19	154	30
Investments in debt portfolios	22	2,708	156	19	2,811	168
Borrowings, other debt securities and leases	(20,248)	-	-	(21,241)	-	-
Trade payables	-	(1)	(0)	-	-	-
Exposure to currency risk	(20,210)	2,771	196	(21,203)	2,965	198

The exposure is designated as the net carrying amount of financial instruments.

The Company defines the risk of currency concentration as a risk that arises from significant exposure to individual financial instruments denominated in RON, CZK, and EUR.

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

PLN	Average exchange rates*		End of period (spot rates)	
	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019	Dec 31 2020	Dec 31 2019
EUR 1	4.4742	4.3018	4.6148	4.2585
USD 1	3.9045	3.8440	3.7584	3.7977
RON 1	0.9239	0.9053	0.9479	0.8901
CZK 1	0.1687	0.1676	0.1753	0.1676

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

PLN '000	Other comprehensive income	Profit or loss for the current period
Dec 31 2020		
EUR (10% appreciation of PLN)	-	(20,210)
RON (10% appreciation of PLN)	-	2,771
CZK (10% appreciation of PLN)	-	196
Dec 31 2019		

EUR (10% appreciation of PLN)	-	(21,203)
RON (10% appreciation of PLN)	-	2,965
CZK (10% appreciation of PLN)	-	197

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

28.5. Interest rate risk

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

PLN '000	Carrying amount Dec 31 2020	Carrying amount Dec 31 2019 Restated
Fixed-rate financial instruments[1]		
Financial assets	64,432	120,346
Financial liabilities	(264,148)	(280,756)
	(199,716)	(160,410)
Hedge effect (nominal amount)	(530,000)	(530,000)
	(729,716)	(690,410)
Variable-rate financial instruments[2]		
Financial assets	287,191	306,977
Financial liabilities	(1,249,858)	(1,570,905)
	(962,666)	(1,263,928)
Hedge effect (nominal amount)	530,000	530,000
	(432,666)	(733,928)

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

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

The Company defines the risk of interest rate concentration as a risk that arises from significant exposure to individual financial instruments.

Sensitivity analysis of fair value of fixed-rate financial instruments

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

Sensitivity analysis of cash flows from variable-rate financial instruments

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

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

PLN '000	**Profit or loss for the current period**		**Equity excluding profit or loss for current period**	
	up by 100 bps	**down by 100 bps**	**up by 100 bps**	**down by 100 bps**
Dec 31 2020				
Variable rate financial assets	2,872	(2,872)	-	-
Variable rate financial liabilities	(12,499)	12,499	-	-
Dec 31 2019 Restated				
Variable rate financial assets	3,070	(3,070)	-	-
Variable rate financial liabilities	(15,709)	15,709	-	-

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 2020**		**Dec 31 2019**	
	Carrying amount	**Fair value**	**Carrying amount Restated**	**Fair value Restated**
Financial assets and liabilities measured at fair value				
Derivatives	(11,236)	(11,236)	3,820	3,820
Hedging instruments	(18,386)	(18,386)	(3,525)	(3,525)
	(29,622)	(29,622)	295	295
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	33,329	32,112	36,949	34,030
Loans to related parties	287,191	283,360	306,977	306,977
Secured borrowings	(117,452)	(117,452)	(399,717)	(399,717)
Liabilities under debt securities (unsecured)	(1,314,247)	(1,319,748)	(1,361,175)	(1,372,989)
	(1,111,179)	(1,121,728)	(1,416,966)	(1,431,699)

For information on fair value measurement, see note 3.3.1.

Interest rates used for fair value estimation

	Dec 31 2020	Dec 31 2019
Investments in debt portfolios	5.77% - 273.80%	5.77% - 134.29%
Secured borrowings	1.19% - 2.19%	1.76% - 3.71%
Liabilities under debt securities (unsecured)	3.21% - 4.80%	4.71% - 5.71%
Loans to related parties	1.51% - 6.81%	1.51% - 6.81%

Hierarchy of financial instruments at fair value

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

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

In 2019–2020, no transfers were made between the levels.

PLN '000		**Level 2**
	Carrying amount	**Fair value**
As at Dec 31 2020		
Derivatives	(11,236)	(11,236)
Hedging instruments	(18,386)	(18,386)
Secured borrowings	(117,452)	(117,452)
Liabilities under debt securities (unsecured)	(1,314,247)	(1,319,748)
As at Dec 31 2019		
Derivatives	3,820	3,820
Hedging instruments	(3,525)	(3,525)
Secured borrowings	(399,717)	(399,717)
Liabilities under debt securities (unsecured)	(1,361,175)	(1,372,989)

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

The fair value of financial liabilities is determined on the basis of future cash flows related to executed transactions, calculated on the basis of the difference between the margin of financial liabilities as at the reporting date and the transaction date margin. In measuring fair value, the Company uses the margins under the last executed credit facility agreement or debt securities issue.

PLN '000		**Level 3**
	Carrying amount	**Fair value**
As at Dec 31 2020		
Investments in debt portfolios	33,329	32,112
Loans to related parties	287,191	283,360
As at Dec 31 2019		
Investments in debt portfolios	36,949	34,030
Loans to related parties	306,977	306,977

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

For bank borrowings, notes in issue, lease liabilities and trade payables, the Company determines fair value using Level 2 inputs.

The Company does not identify Level 1 assets.

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

29. Related-party transactions

Remuneration of the Company's directors – Management Board

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

PLN '000	**Jan 1–Dec 31 2020**	**Jan 1-Dec 31 2019**
Base pay/ managerial contract (gross)	6,231	5,472
Share based payments	4,382	9,658
Other benefits	109	93
	10,721	15,223

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

Remuneration of the Company's directors – Supervisory Board

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

PLN '000

	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019
Base pay/ managerial contract (gross)	873	866
Other benefits	15	36
	888	902

Other transactions with the Company's directors

As at December 31st 2020, members of the Management Board and persons closely related to them jointly held 10.32% of the total voting rights at the Company's General Meeting (December 31st 2019: 11.09%).

In 2020 and 2019, there were no transactions with close family members of the Company's key management personnel.

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

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

Other related-party transactions

The Company has receivables from related entities for the provision of debt collection services and support services.
The Company has liabilities towards related entities under: non-transferred recoveries collected as part of debt collection services provided by the Company and liabilities under debt collection services provided to the Company by related entities.
Receivables, liabilities, loans advanced and received are unsecured and will be settled by offsetting mutual claims. In the financial year under analysis, the Company recognised an allowance for expected credit losses on loans advanced of PLN 23,695 thousand (2019: PLN 21,381 thousand). For information on expected credit losses on loans advanced, see Note 28.1.
Related-party transactions were made on terms equivalent to those that prevail in arm's length transactions.

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

PLN '000	**Liabilities**	**Receivables**	**Loans**	**Interest accrued on loans**
SeCapital S.à. r.l	7,838	2,080	-	-
ERIF Business Solutions Sp. z o.o.	-	59	172	-
Novum Finance Sp. z o.o.	-	239	31,242	-
SeCapital Polska Sp. z o.o.	-	-	150	-
Kancelaria Prawna RAVEN P.Krupa Sp. k.	2,976	1,560	-	-
KRUK Romania S.r.l.	520	751	52,494	535
ERIF BIG S.A.	24	230	-	-
NSFIZ PROKURA	5,552	7,511	-	-
KRUK Česká a Slovenská republika s.r.o.	65	240	7,020	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	9,980	-	-
InvestCapital Ltd.	531	245	-	-
KRUK Deutschland GmbH	-	21	-	-
KRUK Deutschland (Branch)	-	-	-	-
Rocapital IFN S.A.	-	-	4,740	49
KRUK Italia S.r.l	-	152	-	-
ItaCapital S.r.l	-	5	-	-
KRUK Espana S.L.	-	102	-	-
Presco Investments S.a.r.l.	14,714	1,408	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	10	256	-	-
ProsperoCapital S.à r.l.	-	13	-	-
Corbul Capital S.r.l	-	-	-	-
Elleffe Capital S.r.l.	-	5	-	-
Zielona Perła Sp. z o.o.	-	-	-	-
NSFIZ BISON	-	18	-	-
AgeCredit S.r.l.	-	20	-	-
Wonga.pl Sp. z o.o.	-	7	190,790	-
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	-	-	-	-
	32,231	24,902	286,608	584

PLN '000	**Revenue from other services**	**Revenue from credit management services**	**Interest**
SeCapital S.à. r.l	14	72	-
ERIF Business Solutions Sp. z o.o.	116	-	43
Novum Finance Sp. z o.o.	1,182	1,094	2,080
SeCapital Polska Sp. z o.o.	11	-	4
Kancelaria Prawna RAVEN P.Krupa Sp. k.	6,127	-	-
KRUK Romania S.r.l.	1,681	-	2,529
ERIF BIG S.A.	737	-	-
NSFIZ PROKURA	3,634	-	-
KRUK Česká a Slovenská republika s.r.o.	889	-	332
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	150	82,788	-
InvestCapital Ltd.	5,961	-	-
KRUK Deutschland GmbH	-	-	-
KRUK Deutschland (Branch)	-	-	-
Rocapital IFN S.A.	-	-	211
KRUK Italia S.r.l	949	-	-
ItaCapital S.r.l	-	-	-
KRUK Espana S.L.	1,275	-	-
Presco Investments S.a.r.l.	12	1,702	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
ProsperoCapital S.à r.l.	12	-	-
Corbul Capital S.r.l	-	-	-
Elleffe Capital S.r.l.	-	-	-
Zielona Perła Sp. z o.o.	-	-	-
NSFIZ BISON	-	-	-
AgeCredit S.r.l.	-	-	-
Wonga.pl Sp. z o.o.	6	68	15,299
GANTOI, FURCULITA SI ASOCIATII-S.P.A.R.L.	-	-	-
	22,756	85,725	20,497

PLN '000	**Purchase of services**
KRUK Romania S.r.l.	4,839
Kancelaria Prawna RAVEN P.Krupa Sp. k.	1,477
KRUK Česká a Slovenská republika s.r.o.	376
ERIF BIG S.A.	238
ERIF Business Solutions Sp. z o.o.	1
	6,931

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

PLN '000	Liabilities	Receivables Restated	Loans Restated	Interest accrued on loans
SeCapital S.à. r.l	8,172	1,415	-	-
ERIF Business Solutions Sp. z o.o.	-	253	1,503	-
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	6,683	-	-
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.à r.l.	-	3	-	-
Corbul Capital S.r.l	-	-	-	-
Elleffe Capital S.r.l.	-	5	-	-
Zielona Perła Sp. z o.o.	-	-	-	-
NSFIZ BISON	-	3,622	-	-
AgeCredit S.r.l.	-	20	-	-
Wonga.pl Sp. z o.o.	-	13	183,299	-
	42,988	75,000	306,459	518

PLN '000	**Revenue from other services**	**Revenue from credit management services**	**Interest Restated**
SeCapital S.à. r.l	-	(222)	-
ERIF Business Solutions Sp. z o.o.	110	-	50
Novum Finance Sp. z o.o.	828	1,270	1,033
SeCapital Polska Sp. z o.o.	11	-	5
Kancelaria Prawna RAVEN P.Krupa Sp. k.	7,227	62	-
KRUK Romania S.r.l.	4,820	153	3,007
ERIF BIG S.A.	815	21	-
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	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
ProsperoCapital S.à 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	13,836

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

30. 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
Dec 31 2020	(1,156)
Total	63,425

The management stock option plans are described in note 20.

31. Other notes

31.1. Notes to the separate statement of cash flows

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

	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019 Restated
Change in trade and other receivables presented in the separate statement of financial position	**52,294**	**(51,549)**
Change in investment receivables	2,077	43,797
Change in trade and other receivables presented in the separate statement of cash flows	**54,372**	**(7,752)**

	Jan 1–Dec 31 2020	Jan 1-Dec 31 2019 Restated
Net finance costs presented in the separate statement of profit or loss	**79,219**	**63,750**
Realised exchange gains/(losses)	(557)	1,285
Net finance costs presented in the separate statement of cash flows	**78,662**	**65,035**

31.2. Effect of COVID-19 pandemic

The KRUK's net profit in 2020 was materially affected by the COVID-19 pandemic. In 2020, the Company's net profit was PLN 81,356 thousand, having decreased by PLN 195,043 thousand, or 71%, year on year. In 2020, the KRUK's revenue from continuing operations totalled PLN 142,304 thousand, down 19% on 2019. Revenue from purchased debt portfolios was PLN 30,179 thousand in 2020, down 15% on 2019. Revenue in the purchased debt segment was down due to lower-than-planned recoveries from debt portfolios.

The value of recoveries from purchased debt portfolios in 2020 amounted to PLN 35,904 thousand, down 13% on 2019.

The results posted by the credit management business were adversly affected by the COVID-19 pandemic, including the fact that some of the banks' customers decided to exercise the right to temporarily suspend repayment of their debts (moratoria). Credit management revenue in 2020 decreased by 18% year on year, to PLN 88,057 thousand.

The COVID-19 pandemic affected the Company's operations in many dimensions. The key ones are presented below:

- We switched to remote working smoothly and fast; most of our employees can and continue to work from home.
- We took care of the employees' safety by adapting the rooms or providing the required sanitisers and disinfectants; we reduce the need for and frequency of face-to-face meetings.
- We temporarily suspended visits from field advisors, who resumed face-to-face meetings with clients in late May and early June while observing the sanitary regime.
- We further developed our existing online tools and accelerated the implementation of new ones (e-KRUK, e-payments, e-signature, online settlement, self-service process) to enable efficient process management and to enable our clients to pay their liabilities safely and comfortably, regardless of any movement restrictions.
- We temporarily lowered the remuneration of members of the management and supervisory boards and our employees.
- We suspended pay rises and fringe benefits, and curtailed recruitment of new staff.
- We used additional cost cutting measures, some of which consisted in postponing certain expenses, and some may be of a recurring nature.
- In Poland we received subsidies to salaries and wages under governmental assistance plans.
- We followed a prudent investment policy, taking into account the additional risk related to the pandemic in our valuations.
- We factored in the probable impact of the pandemic on recoveries.

The measures we took to support the operating process during the pandemic, the cost-cutting measures we applied, and also our long-standing conservative policy of keeping the Company's debt at a relatively low level allowed us to maintain a stable financial and liquidity position in this economically challenging time.

The Company's operations are being continued on each market and within each business line, and the Company's liquidity position remains stable. The Company has access to significant liquidity reserves in the form of cash at bank and unused credit facility limits.

However, at the time of preparation of the seperate financial statements for 2020, the Company is unable to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Company's economic condition and financial performance.

Taking various scenarios into account, the Company intends to manage its operations in a way that would minimise any adverse effects on KRUK's assets and financial performance. The following measures have been taken to that end: the switchover to remote work (with 95% of the employees having opted to work from home during the pandemic period), reduction of investments in new portfolios, and cost saving initiatives in 2020. At the time of preparation of these seperate financial statements for 2020, the Company was unable to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Company's economic condition and financial performance, due to the heightened uncertainty of estimates. However, seeking to forestall any unexpected impacts of COVID-19 on the valuation of its debt portfolios, the Company developed operational scenarios for various impacts of the pandemic on the level of its recoveries. Gain/(loss) on expected credit losses on portfolios recognised throughout 2020 reflects the scenario of the pandemic's impact on debt recoveries that was considered most probable at the time of its preparation. If in the coming months recoveries turn out to be lower than assumed for the purposes of the valuation and a further revaluation loss is required to be recognised to reflect the pandemic impact, the Company is prepared and has plans to take further operational measures to ensure that its continued operations and liquidity position on each market remain stable.

32. Auditor's fees

PLN '000 net	**Dec 31 2020**	**Dec 31 2019**
Audit of financial statements	1,832	1,496
Other assurance services, including review of financial statements	352	501
	2,184	1,997

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

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

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Surety for Prokura NS FIZ's liabilities towards mBank under the credit facility granted to Prokura NS FIZ	mBank S.A.	PLN 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 treasurytransactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of June 13th 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 162.40m	By October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions

Guarantee issued by KRUK S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A. are fulfilled	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 291,076.65 and PLN 197,482.17	By December 30th 2021	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee

Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	By December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A.,	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	EUR 390m	Until all obligations under the credit facility agreement are satisfied.	The Borrower's failure to pay amounts owed under the credit facility agreement

Blank promissory note	mBank S.A.	PLN 7.5m	Until the transactions are settled and the bank's claims thereunder are satisfied.	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of February 7th 2019.
Surety for InvestCapital LTD's liabilities under financial market transactions in pursuant to the master agreement between InvestCapital LTD and DNB Bank Polska S.A.	DNB Bank Polska S.A.	EUR 15.3m	Until the transactions are settled and the bank's claims thereunder are satisfied.	InvestCapital LTD's failure to satisfy its obligations under financial market transactions executed pursuant to the master agreement of February 28th 2019.

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

34. Events subsequent to the reporting date

On March 17th 2021, the KRUK S.A. Management Board passed a resolution recommending that the Annual General Meeting approves dividend of PLN 8 per share. The dividend would be distributed from the Company's net profit earned in 2020, increased by amounts transferred from statutory reserve funds created from retained earnings. The recommendation took into account the current financial condition, future implementation of the strategy, as well as plans and growth prospects of KRUK S.A. The Management Board may propose distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to strategic plans, growth prospects, investment financing requirements, as well as the current debt level and overall financial position of KRUK S.A.

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

Piotr Krupa
President of the Management Board

Piotr Kowalewski
Member of the Management Board

Urszula Okarma
Member of the Management Board

Adam Łodygowski
Member of the Management Board

Michał Zasępa
Member of the Management Board

Monika Grudzień-Wiśniewska

Person responsible for maintaining the accounting records

Hanna Stempień

Person preparing the financial statements

Wrocław, March 24th 2021.