The KRUK Group
Consolidated financial statements
for the year ended December 31st 2019

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

The KRUK Group

December 31st 2019

Table of contents

Page

Consolidated statement of profit or loss

For the year ended December 31st 2019
PLN '000

	Note	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Continuing operations			
Revenue	5	1,251,057	1,164,811
including interest income on debt portfolios calculated using the effective interest rate method		*976,883*	*873,403*
including interest income on other financial instruments calculated using the effective interest rate method		*87,444*	*14,459*
Other income	6	8,687	4,876
		1,259,743	1,169,687
Employee benefits expense	9	(356,998)	(309,694)
Depreciation and amortisation	13, 14	(44,043)	(19,923)
Services	7	(152,389)	(152,035)
Other expenses	8	(265,974)	(209,764)
		(819,404)	(691,416)
Operating profit		440,339	478,271
Finance income	10	211	148
Finance costs	10	(126,341)	(125,879)
Net finance costs		(126,129)	(125,731)
Profit before tax		314,210	352,540
Income tax	11	(37,153)	(22,128)
Net profit for the period		277,057	330,412
Net profit attributable to:			
Owners of the Parent		276,390	330,016
Non-controlling interests		667	396
Net profit for the period		277,057	330,412
Earnings per share			
Basic (PLN)	23	14.61	17.51
Diluted (PLN)	23	14.30	17.09

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

Consolidated statement of comprehensive income

For the year ended December 31st 2019
PLN '000

	Note	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Net profit for the period		277,057	330,412
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	*10*	(23,550)	(2,850)
Cash flow hedges		3,947	(11,131)
Income tax on derivatives		-	1,380
Other comprehensive income for the period, net		(19,603)	(12,601)
Total comprehensive income for the period		257,454	317,811
Total comprehensive income attributable to:			
Owners of the Parent		256,787	317,415
Non-controlling interests		667	396
Total comprehensive income for the period		257,454	317,811
Comprehensive income/ (loss) per share			
Basic (PLN)		13.61	16.87
Diluted (PLN)		13.32	16.46

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

Consolidated statement of financial position

As at Dec 31 2019
PLN '000

	Note	Dec 31 2019	Dec 31 2018
Assets			
Cash and cash equivalents	20	150,274	147,302
Trade receivables	19	23,988	28,143
Investments	16	4,411,438	4,121,782
Investment property	17	34,655	35,188
Other receivables	19	31,852	23,088
Inventories		37	197
Property, plant and equipment	13	82,973	26,354
Goodwill	15	47,206	62,010
Other intangible assets	14	50,252	33,877
Derivatives	25	4,219	1,450
Other assets	21	3,020	2,786
Total assets		4,839,914	4,482,177
Equity and liabilities			
Liabilities			
Derivatives	25	3,924	3,870
Trade and other payables	27	101,303	176,054
Employee benefit obligations	26	49,539	44,678
Income tax payable		6,673	15,600
Borrowings, debt securities and leases	24	2,705,727	2,500,043
Provisions	28	7,156	-
Deferred tax liability	18	6,498	9,182
Total liabilities		2,880,821	2,749,427
Equity			
Share capital	22	18,972	18,887
Share premium		307,192	300,097
Cash flow hedging reserve		78	(3,869)
Exchange differences on translating foreign operations		(30,219)	(53,769)
Other capital reserves		104,582	94,924
Retained earnings		1,557,821	1,376,084
Equity attributable to owners of the Parent		1,958,426	1,732,354
Non-controlling interests		667	396
Total equity		1,959,093	1,732,750
Total equity and liabilities		4,839,914	4,482,177

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

Consolidated statement of changes in equity

For the year ended December 31st 2019 (PLN'000)

	Note	Share capital	Share premium	Cash flow hedging reserve	Exchange differences on translating foreign operations	Other capital reserves	Retained earnings	**Equity attributable to owners of the Parent**	Non-controlling interests	**Total equity**
Total equity as at Dec 31 2017		18,808	293,581	5,882	(56,619)	86,806	1,111,961	1,460,418	104	1,460,523
Adjustment on transition to IFRS 9		-	-	-	-	-	28,147	28,147	-	28,147
Equity as at Jan 1 2018 following changes in accounting policies		18,808	293,581	5,882	(56,619)	86,806	1,140,108	1,488,565	104	1,488,670
Comprehensive income for the period										
Net profit for the period		-	-	-	-	-	330,016	330,016	396	330,412
Other comprehensive income										-
- Exchange differences on translating foreign operations		-	-	-	2,850	-	-	2,850	-	2,850
- Measurement of hedging instruments		-	-	(9,751)	-	-	-	(9,751)	-	(9,751)
Total other comprehensive income		-	-	(9,751)	2,850	-	-	(6,901)	-	(6,901)
Total comprehensive income for the period		-	-	(9,751)	2,850	-	330,016	323,115	396	323,511
Contributions from and distributions to owners										
- Payment of dividends		-	-	-	-	-	(94,040)	(94,040)	(104)	(94,144)
- Issue of shares		79	6,516	-	-	-	-	6,595	-	6,595
- Share-based payments		-	-	-	-	8,118	-	8,118	-	8,118
Total contributions from and distributions to owners		79	6,516	-	-	8,118	(94,040)	(79,327)	(104)	(79,431)
Total equity as at Dec 31 2018		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Equity as at Jan 1 2019		18,887	300,097	(3,869)	(53,769)	94,924	1,376,084	1,732,353	396	1,732,750
Comprehensive income for the period										
Net profit for the period		-	-	-	-	-	276,390	276,390	667	277,057

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

Other comprehensive income										
- Exchange differences on translating foreign operations		-	-	-	23,550	-	-	23,550	-	23,550
- Measurement of hedging instruments		-	-	3,947	-	-	-	3,947	-	3,947
Total other comprehensive income		-	-	3,947	23,550	-	-	27,497	-	27,497
Total comprehensive income for the period		-	-	-	23,550	-	276,390	303,887	667	304,554
Contributions from and distributions to owners										
- Payment of dividends	*23*	-	-	-	-	-	(94,653)	(94,653)	(396)	(95,049)
- Issue of shares	*22*	-	7,095	-	-	-		7,095	-	7,095
- Share-based payments	*31*	85	-	-	-	9,658	-	9,743	-	9,743
Total contributions from and distributions to owners		85	7,095	-	-	9,658	(94,653)	(77,815)	(396)	(78,211)
Total equity as at Dec 31 2019		18,972	307,192	78	(30,219)	104,582	1,557,821	1,958,425	667	1,959,093

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

Consolidated statement of cash flows

For the year ended December 31st 2019
PLN '000

	Note	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Cash flows from operating activities			
Net profit for the period		277,057	330,412
Adjustments			
Depreciation of property, plant and equipment	13	32,154	11,206
Amortisation of intangible assets	14	11,889	8,717
Impairment losses on goodwill		13,112	-
Net finance costs		115,181	110,255
(Gain)/loss on sale of property, plant and equipment		(287)	(1,547)
Equity-settled share-based payments	31	9,658	8,118
Income tax	11	37,153	22,128
Change in loans	16	(89,480)	(19,192)
Change in investments in debt portfolios and property	16, 17	(92,201)	(955,235)
Change in inventories		160	297
Change in trade and other receivables	19	(4,609)	47,393
Change in other assets	21	(234)	15,256
Change in trade and other payables	27	(71,751)	32,605
Change in employee benefit obligations	26	4,861	15,963
Change in provisions	28	7,156	-
Share of minority interests		(667)	-
Cash flows from operating activities of newly acquired companies		-	(2,235)
Income tax paid		(40,512)	(26,191)
Net cash from operating activities		208,642	(402,050)
Cash flows from investing activities			
Interest received	10	211	148
Sale of intangible assets and property, plant and equipment		3,175	7,776
Acquisition of subsidiaries	15	(92,325)	(5,772)
Purchase of intangible assets and property, plant and equipment	13, 14	(48,040)	(28,356)
Net cash from investing activities		(136,978)	(26,204)
Cash flows from financing activities			
Net proceeds from issue of shares	22	7,095	6,595
Proceeds from issue of debt securities	24	215,000	65,000
Increase in borrowings	24	1,738,898	2,036,525
Repayment of borrowings	24	(1,589,672)	(1,398,074)
Payments under finance lease contracts	24	(18,593)	(2,606)
Payment of dividends	23	(95,049)	(94,144)
Redemption of debt securities	24	(211,388)	(115,000)
Interest paid		(114,983)	(96,025)
Net cash from financing activities		(68,692)	402,271
Total net cash flows		2,972	(25,982)
Cash and cash equivalents at beginning of period		147,302	173,284
Cash and cash equivalents at end of period	20	150,274	147,302

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

Significant accounting policies and other notes

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

1. Parent

Name:
KRUK Spółka Akcyjna ("KRUK S.A." or "Parent")

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

Registration in the National Court Register:
District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland
Date of registration: September 7th 2005
Registration number: KRS NO. 0000240829

Principal business activities of the Parent and its subsidiaries

The principal business activities of the Parent and most of its subsidiaries consist primarily in the restructuring and recovery of debts purchased by the Group companies and the provision of credit management services to financial institutions and other clients. Some subsidiaries also operate in the consumer lending market.

These consolidated financial statements for the reporting period ended December 31st 2019 include the financial statements of the Parent and its subsidiaries (jointly the "Group" or the "KRUK Group").

As at the date of this report, the Group comprised KRUK S.A. of Wrocław and its 23 subsidiaries:

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna RAVEN P. Krupa sp. k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK ROMANIA S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	Wrocław	Fund employing professional risk assessment and credit management methodologies
Secapital Polska sp. z o.o.	Wrocław	Management of securitised debt
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds

Subsidiary	Registered office	Principal business activity
InvestCapital Ltd.	Malta	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
RoCapital IFN S.A.	Bucharest	Granting consumer loans
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt purchased by the KRUK Group companies in Italy and other European countries
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Espana S.L.	Madrid	Credit management services, collection of debt purchased by the KRUK Group companies in Spain and other European countries, debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Fund employing professional risk assessment and credit management methodologies; All certificates issued by the fund are held by Presco Investments S.a r.l.
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Bison NS FIZ (closed-end investment fund)	Wrocław	Fund employing professional risk assessment and credit management methodologies All certificates issued by the fund are held by KRUK S.A.
Wonga.pl sp. z o.o.	Warsaw	Company operating in the consumer lending market

The Parent operates 11 offices across Poland, in Poznań, Warsaw, Kraków, Katowice, Bydgoszcz, Łódź, Elbląg, Szczecin, Stalowa Wola, Szczawno-Zdrój, and Piła.

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

KRUK S.A. is the Parent of the Group. The subsidiaries are listed below.

		Ownership interest (%)	
	Country	Dec 31 2019	Dec 31 2018
Secapital S.a.r.l. [1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
Secapital Polska Sp. z o.o.	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l	Romania	100%	100%
Kancelaria Prawna Raven P. Krupa Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ [1]	Poland	100%	100%
InvestCapital Ltd [1]	Malta	100%	100%
RoCapital IFN S.A.	Romania	100%	100%
Kruk Deutschland Gmbh	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.r.l	Spain	100%	100%
ProsperoCapital S.a.r.l. [2]	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
Presco Investments I NS FIZ[1]	Poland	100%	100%
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	100%	100%
Elleffe Capital S.r.l.[1]	Italy	100%	100%
Corbul S.r.l[3]	Romania	-	-
AgeCredit S.r.l.	Italy	100%	100%
Zielona Perła Sp. z o.o.[4]	Poland	-	100%
Wonga.pl Sp. z o.o.[5]	Poland	100%	-

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

[2] *ProsperoCapital S.a.r.l is a party to a joint arrangement (Note 16).*

[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] *On April 30th 2019, a transaction to buy shares in Wonga.pl Sp. z o.o. was executed.*

2. Basis of preparation

2.1. Statement of compliance

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

These consolidated financial statements were authorised for issue by the Management Board of the Parent (the "Management Board") on March 4th 2020.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as going concerns.

2.2. Basis of accounting

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

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

- at amortised cost calculated using the effective interest rate method
  - including impairment losses – for credit-impaired assets,
  - financial assets held as part of the business model whose objective is to hold financial assets in order to collect contractual cash flows

  and
  - for other financial liabilities,
- at fair value – for derivatives.
- at historical cost – for non-financial assets and liabilities.

2.3. Functional currency and presentation currency

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

2.4. Accounting estimates and judgements

In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from those estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which an estimate is changed.

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

Item	Amount estimated		Note	Assumptions and estimate calculation
	2018 ***(PLN '000)***	**2019** ***(PLN '000)***		
Investments in debt portfolios	4,077,718	4 196,821	3.4 16 29.1 29.3	The value of a purchased debt portfolios as at the measurement date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods or based on a legal and economic analysis of individual claims or debtors (case-by-case analysis). The method of estimating cash flows under a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. The KRUK Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for, among other things, historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, and current collection strategy.
Goodwill	62,010	47,206	3.7.1 3.10.2 15	Goodwill impairment is estimated based on the expected discounted cash flows to be derived from a cash-generating unit. The discount rate used to test goodwill for impairment reflects the current market assessment of the asset risk for the debt collection industry. In the reporting period, the amount of goodwill impairment was PLN 13,112 thousand.

Item	Amount estimated		Note	Assumptions and estimate calculation
	2018 *(PLN '000)*	2019 *(PLN '000)*		
Loans	44,064	214,617	3.4 16 29.1 29.3	Loans advanced by the KRUK Group are measured at amortised cost, using the effective interest rate method, and recognised net of impairment losses. The effective interest rate is determined on the basis of the originally expected flow resulting directly from the original payment schedule. Interest income is calculated at the effective interest rate. Expected credit losses are estimated on the basis of expected cash flows. Changes in credit losses are recognised as income. On April 30th 2019, the KRUK Group acquired Wonga, which is the main source of the significant year-on-year increase in the carrying amount of loans as at the end of 2019.
Lease liabilities and right-of-use assets	n/a	55,964	24	The implementation of IFRS 16 required making estimates and calculations that affected the measurement of lease liabilities and right-of-use assets. These include: • reviewing long-term lease contracts and identifying contracts covered by IFRS 16, • determining the remaining lease term for contracts concluded before January 1st 2019 (including for contracts with indefinite term or with the possibility of extension), • determining the marginal interest rates to be used to discount future cash flows, • identifying useful lives and determining amortisation rates for the right-of-use assets.

Item	Amount estimated		Note	Assumptions and estimate calculation
	2018 *(PLN '000)*	2019 *(PLN '000)*		
Provisions	n/a	7,156	25	As at December 31st 2019, the Group assessed the legal risk arising from the CJUE ruling on consumer loans and estimated the possible amount of cash outflow for the reimbursement of early repayment fees to customers. The estimates required the Group to make expert assumptions, primarily concerning the scale of complaints and the amounts refunded prior to the CJEU judgment as well as the effect and the expected scale of prepayments and future refunds on on-balance sheet exposures. The estimates involve a certain amount of uncertainty.

Item	Amount subject to judgement		Note	Assumptions underlying judgements
	2018 *(PLN '000)*	2019 *(PLN '000)*		
Deferred tax assets and liabilities	9,182	6,498	3.17	As the KRUK Group is able to control the timing of temporary differences, it recognises deferred tax liabilities at amounts of income tax to be paid in the future (three years). Taxable temporary differences will increase taxable income in the future.
Investments	116,200	96,936	16	The KRUK Group determined that the agreement executed with the co-investor in 2016 for the purchase of debt portfolios on the Romanian market was a transaction meeting the definition of a joint operation rather than a joint venture, and therefore disclosed the transaction in the consolidated financial statements as a proportional share in the company's assets and liabilities rather than an equity-accounted transaction.
Functional currency at InvestCapital	(53,769)	7,121	10	InvestCapital carries out material transactions in three different currencies: EUR, PLN, and RON. The KRUK Group assesses the correctness of applying the functional currency for executed transactions on a quarterly basis, taking into account both historical and planned transactions. The functional currency of InvestCapital is EUR.

3. Significant accounting policies

3.1. Changes in accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in these financial statements, except for changes related to the implementation of the new IFRS 16 standard and changes in the presentation of items in the consolidated statement of financial position.

Implementation of IFRS 16

The Group adopted the new IFRS 16 Leases as of its effective date, i.e. January 1st 2019. IFRS 16 replaces IAS 17 Leases and refers to the recognition, measurement, presentation and disclosure of leases. The Group applied the modified retrospective approach to its lease contracts, i.e. without restating comparative data. In early 2019, the Group completed assessment of the impact which the adoption of the Standard would have in all areas of its business.
In accordance with IFRS 16, the Group classifies long-term lease contracts as leases, disclosing in its financial statements the right-of-use assets (under property, plant and equipment in the statement of financial position) and lease liabilities (under borrowings and other financial liabilities in the statement of financial position) measured at the present value of the lease payments that remain to be paid as of January 1st 2019. At the date of initial application, the amount of future lease payments was discounted using the lessee's weighted average incremental borrowing rate of 3.00%–3.88%. The right-of-use assets were recognised at the same amounts as the lease liabilities due to the absence of contractual clauses that could result in creating provisions for additional charges or provisions related to the disassembly of leased facilities or items.

The Group applied the practical expedient permitted by the standard for short-term leases (up to 12 months) and low-value leases (up to PLN 20 thousand), for which it does not recognise financial liabilities and related right-of-use assets, and lease payments are recognised as costs using the straight-line method during the lease term under other expenses in the consolidated statement of profit or loss.

The Group recognises a lease contract as a right-of-use asset and a corresponding lease liability as of the date when the leased asset is available for use.

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

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

and

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

Right of use assets are measured at cost, including:

- the initial amount of the lease liability;
- any lease payments made at or prior to commencement, less any lease incentives received,
- any initial direct costs incurred by the lessee (i.e. incremental costs of obtaining the lease), and
- an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site on which it is located, if the lessee assumes a liability in relation to those costs.

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

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

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

The lease term was determined taking into account the extension and shortening options available under executed contracts if the option is likely to be exercised. Right-of-use assets are amortised on a straight-line basis over the shorter of the useful life of the asset or the lease term, while lease liabilities are measured at amortised cost.

The effect of application of IFRS 16 on individual items of the consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of cash flows is presented below.

PLN '000

	Jan 1 2019 Data after application of IFRS 16	Impact of IFRS 16	Dec 31 2018
Assets			
Cash and cash equivalents	147,302	-	147,302
Trade receivables	28,143	-	28,143
Investments	4,156,970	-	4,156,970
Other receivables	23,088	-	23,088
Inventories	197	-	197
Property, plant and equipment	93,032	66,678	26,354
Goodwill	62,010	-	62,010
Other intangible assets	33,877	-	33,877
Deferred tax asset	-	-	-
Other derivatives	1,450	-	1,450
Other assets	2,786	-	2,786
Total assets	4,548,855	66,678	4,482,177

PLN '000

	Jan 1 2019 Data after application of IFRS 16	Impact of IFRS 16	Dec 31 2018
Liabilities			
Deferred tax liability			13,905
Hedge derivatives	3,870	-	3,870
Trade and other payables	176,054	-	176,054
Employee benefit obligations	44,678	-	44,678
Income tax payable	15,600	-	15,600
Borrowings and other financial liabilities	2,566,721	66,678	2,500,043
Deferred tax liability	9,182	-	9,182
Total liabilities	2,816,105	66,678	2,749,427
Equity			
Share capital	18,887	-	18,887
Share premium	300,097	-	300,097
Cash flow hedging reserve	(3,869)	-	(3,869)
Exchange differences on translating foreign operations	(53,769)	-	(53,769)
Other capital reserves	94,924	-	94,924
Retained earnings	1,376,084	-	1,376,084
Equity attributable to owners of the Parent	1,732,354	-	1,732,354
Non-controlling interests	396	-	396
Total equity	1,732,750	-	1,732,750
Total equity and liabilities	4,548,855	66,678	4,482,177

Effect on consolidated statement of financial position		
Finance lease liabilities	IAS 17	9,155
Off-balance-sheet liabilities under operating leases (undiscounted)	IAS 17	70,494
Total – December 31st 2018		**79,649**
Effect of discounting using the incremental borrowing rate as at January 1st 2019	IFRS 16	(3,816)
Short-term lease contracts recognised as expense in the period	IFRS 16	-
Leases of low-value assets recognised as expense in the period	IFRS 16	-
Lease liabilities – January 1st 2019		**75,833**
including liabilities under IFRS 16		*66,678*

	Jan 1-Dec 31 2019
Effect on consolidated statement of profit or loss	
- increase in interest expense	2,767
- increase in depreciation and amortisation expense	17,029
Effect on consolidated statement of cash flows	
- increase in net operating cash flows	5,136
- decrease in net financing cash flows	(5,136)

Enhancing comparability

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

PLN '000	**Dec 31 2018 Published data**	**Change of presentation**	**Dec 31 2018 Data adjusted to ensure comparability**
Assets			
Investments	4,156,970	(35,188)	4,121,782
Investment property	-	35,188	35,188

3.2. Basis of consolidation

The Group consolidates the entities over which it exercises control, i.e. subsidiaries, starting from the date when the Group obtains control.

The Parent exercises control when it:

- exercises power over the investee,
- is exposed or has rights to variable returns from its involvement with the investee,
- has the ability to use its power over the investee to affect the amount of its returns.

All KRUK Group companies are consolidated using the full method, except ProsperoCapital S.a.r.l., consolidated with the proportional method.

Full consolidation of subsidiaries' financial statements consists in summing up the individual items of the statement of financial position and the statement of profit or loss and other comprehensive income of the Parent and the subsidiaries in full amounts, and making appropriate consolidation adjustments and eliminations.

The carrying amount of shares held by the Parent in its subsidiaries and the equity of those subsidiaries on acquisition are eliminated. The following items are eliminated in full amounts:

1) mutual receivables and liabilities and similar accounts between the consolidated entities;
2) income and costs arising on transactions concluded between the consolidated entities;
3) gains or losses arising on transactions between the consolidated entities, included in the value of consolidated assets, with the exception of losses indicating impairment;
4) dividends accrued or paid by the subsidiaries to the Parent and other consolidated entities.

3.2.1. Business acquisitions

Business acquisitions, including acquisitions of closed-end investment funds, are accounted for with the acquisition method as at the acquisition date, which is the date on which the Group assumes control of the acquiree.

The Group recognises goodwill calculated as the excess of the consideration transferred over the fair value of the acquired net identifiable assets. If the fair value of purchased net assets exceeds the consideration transferred, the Group recognises the gain on occasional acquisition.

The consideration transferred is measured at fair value of transferred assets, liabilities incurred by the Group towards the previous owners of the acquiree, and shares issued by the Group. The consideration also includes the fair value of a part of contingent consideration. If as a result of the acquisition previous liabilities between the Group and the acquiree expire, the value of the consideration is decreased by the contractual price for the extinguishment of liability and recognised as other costs.
The fair value of intangible assets acquired in a business acquisition is based on discounted cash flows expected from the use or any disposal of such assets.

The fair value of property, plant and equipment acquired in a business acquisition is based on the market value of such property, plant and equipment. The fair value of other items of property, plant and equipment is determined using the market approach and cost methods which are based on market quoted prices for similar assets, if available, and, in justified cases, on replacement costs.

Conditional liabilities of the acquiree are accounted for in a business acquisition only where such liability is currently payable, results from past events, and its fair value may be estimated in a reliable manner.

The Group measures all non-controlling interests in proportion to the interests in identifiable net assets of the acquiree.

Material transaction costs incurred in relation to a business acquisition, such as legal fees, costs of due diligence and other professional services, are recognised as costs for the period in which they are incurred.

3.2.2. Business combinations

Combination of jointly controlled entities is accounted for using the pooling of interests method. The pooling of interests method involves aggregating individual items of the relevant assets, liabilities, equity, income and expenses of the combined entities as at the combination date following their remeasurement using uniform accounting methods and applying appropriate eliminations. No goodwill arises as a result of a business combination.

3.2.3. Subsidiaries

Subsidiaries are entities controlled by the Parent, including investment funds. Financial statements of subsidiaries are consolidated from the date of assuming control over subsidiaries to the date on which such control ceases to exist. The accounting policies applied by the subsidiaries are uniform with the policies applied by the Group.

3.3. Foreign currencies

3.3.1. Foreign currency transactions

Transactions denominated in foreign currencies as at the transaction date are recognised in the functional currencies of the Group's entities, at buy or sell rates quoted as at the transaction date by the bank whose services a given entity 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 central bank 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 in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the relevant mid exchange rate quoted by the central bank 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 central bank 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 central bank for the date of fair value measurement.

Exchange differences on translation into the functional currency are recognised in profit or loss for the given period.

3.3.2. Translation of foreign operations

Assets and liabilities of foreign entities, including goodwill and consolidation adjustments to the fair value as at the acquisition date, 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.

3.4. Financial instruments

3.4.1. Financial assets

Financial assets are classified by the Group 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 Group to manage a given group of assets and the characteristics of contractual cash flows arising from a single asset or group of assets.

The Group identifies the following business models:

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

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

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

- it could have only a de minimis effect on the contractual cash flows of the financial asset,

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

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

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

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

Financial assets	Cash	Trade and other receivables	Investments at fair value	Investments measured at amortised cost	Loans
Valuation methodology	Amortised cost	Amortised cost	Amortised cost	Amortised cost	Amortised cost

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

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

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

1. The following assets are measured at amortised cost:
    a. Purchased debt portfolios
    b. Trade and other receivables
    c. Loans

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

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

2. At fair value through other comprehensive income

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

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

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

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

The following is considered a change in the business model:

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

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

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

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

1. 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;
2. if the Company retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the asset;
3. if the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset.

In such a case:

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

Financial assets measured at amortised cost

Purchased debt portfolios

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

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

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

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

The effective interest rate, equal to the internal rate of return including an element that reflects credit risk, used for discounting estimated cash flows is calculated based on initial projections of expected cash receipts that take into account the initial value (purchase price plus transaction costs), and remains unchanged throughout the life of a portfolio.

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

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

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

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

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

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

2nd level of grouping – the measurement method applied (at amortised cost)

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

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

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

Loans and receivables

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

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

Loans advanced by the KRUK Group are measured at amortised cost, using the effective interest rate method, and recognised less of impairment. The effective interest rate is determined on the basis of the originally expected flow resulting directly from the original payment schedule. Interest income is calculated at the effective interest rate.

Impairment of receivables

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

To assess whether the credit risk increase is significant, the Group compares the risk of default on a given financial asset as at the reporting date with the risk of default on that financial asset as at the date of its initial recognition, taking into consideration rational information that can be documented.
Objective evidence that a financial asset is credit-impaired includes observable data about the following events:

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

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

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

Impairment of loans

Expected credit losses are estimated on the basis of expected cash flows.

For monthly instalments, impairment losses are determined by comparing the gross carrying amount of the loan portfolio as at a given reporting date with the present value of discounted future cash flows expected to be recovered from that portfolio. Gross carrying amount of the loan portfolio as at the reporting date - the amount of capital loaned, including fees charged at the effective interest rate and accrued penalty interest, less payments made by the customer as at the reporting date. Present value of discounted future cash flows - all repayments the Company expects to receive from its loan portfolio (including repayments received as part of a cyclical transaction of sale of receivables, if a loan is more than 180 days past due) discounted to the present value at the effective interest rate as at the reporting date. Repayments expected to be received by the Company (i.e. future cash flows) are based on 'repayment curves', i.e. development factors (DF), which reflect actual distribution of repayments on a given product mix. Development factors (DF) are calculated on the basis of the repayment history (after months from loan origination, i.e. MOB – months of business) for all loans advanced in the past.

For short-term products, the same calculation as for instalment products, with the proviso that repayments are analysed after weeks from origination (i.e. WOBs – weeks of business) rather than months, as is the case for instalment products.

Net changes in write-offs for expected credit losses are recognised as income.

How expected losses are recognised by the KRUK Group depends on the change of the risk level from the date of the loan origination. To assess whether the credit risk increase is significant, the Group 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: a breach of contract, such as default or past due event.

Valuation of loan portfolios involves forecasting to determine expected credit losses on future cash flows. In the event of a significant deterioration of the macroeconomic situation that would have a significant and clear impact on expected cash flows (recoveries from primary flows), it is possible to modify the forecasts for expected repayments. In such a case, the value of impairment losses would significantly increase, thus reducing the net carrying amount of the portfolio. At present, there is no reason to modify the model cash flow forecasts.

The KRUK Group classifies loans to three baskets for which expected losses and interest income are recognised as follows:

• Basket 1 – loans in the case of which there has been no significant increase of credit risk (delay in repayment) from the time of their recognition until balance sheet date and there have been no impairment identified. The expected losses on such loans are recognised for a time horizon of the next 12 months. Interest income on loans in this basket is recognised on the gross value of estimated contract flows.

• Basket 2 – loans in the case of which there has been a significant increase in credit risk since their recognition until balance sheet date (delay in repayment or where the credit agreement has been terminated). For such loans, lifetime expected credit losses are recognised. Interest income on loans in this basket is recognised on the gross value of estimated contract flows.

• Basket 3 – loans in the case of which the impairment have been identified: delay in repayment 90 days or the credit agreement has been terminated. For such loans, lifetime expected credit losses are recognised.

Purchased impaired loans (POCI) are classified immediately into Basket 3. Interest income on loans classified as POCI is recognised on the net value, i.e. at estimated contract flows less expected losses.

Financial assets at fair value through profit or loss

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

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

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

A gain or loss on assets measured at fair value through profit or loss is recognised in profit or loss.

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

Financial assets at fair value through other comprehensive income

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

a) the financial asset is held 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
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.

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.

3.4.2. Financial liabilities other than derivative instruments

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

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

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of 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.

The Group has the following liabilities: bank borrowings, debt securities, trade payables, lease liabilities and other liabilities.

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

The Group 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 Group 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 lease liabilities, the market interest rate is determined by reference to similar lease contracts. Liabilities with short maturities and liabilities for which interest rates are adjusted for changes in base rates on an on-going basis are not discounted because their carrying amount is approximately equal to their fair value.

3.4.3. Derivative instruments and hedge accounting

Hedge accounting

To apply hedge accounting, the Company is required to meet all the requirements specified below:

a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;

b) at the inception of the hedging relationship, the entity has formally designated and documented the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).

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

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

Discontinuation of hedge accounting

The Company discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

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

Cash flow hedges

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

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

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

- the cumulative gain or loss on the hedging instrument from inception of the hedge;
- 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 Group 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 foreign operation included in these consolidated financial statements.

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

a) the portion of the gain or 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.

The Group 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 Group 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.

3.5. Property, plant and equipment

3.5.1. 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 (where an item of property, plant and equipment is 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.

3.5.2. Subsequent expenditure

The Group companies capitalise future expenditure on an item of property, plant and equipment if such expenditure may be reliably estimated and if the Group is likely to derive economic benefits from such item of property, plant and equipment. 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.

3.5.3. Depreciation

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

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

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

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

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

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

3.5.4. Property, plant and equipment used under lease contracts

The Group 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 accounting policies for property, plant and equipment used under lease contracts and lease liabilities are described in detail in note 3.1 of the *Implementation of IFRS 16* section.

3.6. Investment property

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

3.7. Intangible assets

3.7.1. Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill measurement methods at the time of its initial recognition are described in note 3.2.1.

Measurement after initial recognition
Following initial recognition, goodwill is measured at cost less cumulative impairment loss.

Goodwill is not amortised. Goodwill is tested for impairment at least once a year. For estimates and judgements used to determine impairment losses, see note 3.10.2.

3.7.2. Other 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 Group 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 Group 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.

3.7.3. 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.

3.7.4. 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 Group has adopted the following length of useful lives for particular categories of intangible assets:

Software 5 years

Development expense 1-5 years.The reliability of applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed at the end of each reporting period and adjusted in justified cases.

3.7.5. Assets amortised over time

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

3.8. Investments

Investments include:

- Debt portfolios measured at amortised cost (for the rules followed in accounting for such portfolios, see note 3.4.1 and 3.10.1);
- Loans (for the rules followed in accounting for loans, see notes 3.4.1 and 3.10.1).

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 end of the reporting period includes accrued interest.

3.10. Impairment losses on assets

3.10.1. Financial assets

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

According to the description of the cost of recognition of losses presented in section 3.4.1, in the case of receivables and loans, objective indications of impairment include non-payment or arrears in repayment of debt by a debtor; restructuring of a debtor's debt to which the Group has agreed for economic or legal reasons arising from financial distress of the debtor and which the Group would otherwise not grant; circumstances demonstrating a high probability of bankruptcy of a debtor or issuer; disappearance of an active market in a given financial asset.

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

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

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

3.10.2. Non-financial assets

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

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. Due to the changing market environment, the Group decided that the discount rate for the purposes of the DCF model used in tests for impairment of goodwill and assets should reflect the current market assessment of the credit risk for the debt collection industry. Therefore, to calculate the discount rate, the Company used 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 flows largely independently from other assets or units of assets.

The Group tests the recognised goodwill for impairment by grouping cash-generating units so that the organisational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organisational level at which the Group monitors goodwill for its own purposes.

For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination.

The Group's corporate (joint) assets do not generate separate cash flows. If any criteria of impairment of corporate assets are met, the recoverable amount is assessed for the cash-generating units to which those assets belong.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit is higher than its recoverable amount. Impairment losses are recognised in profit or loss for the period. Impairment of a cash-generating unit is first recognised as impairment on goodwill allocated to that unit (group of units), and subsequently as impairment of carrying amount of other assets of that unit (group of units) on pro-rata basis.

Goodwill impairment losses are irreversible. Impairment losses on other assets, recognised in previous periods, are reviewed for reduction or reversal at the end of each reporting period. Impairment losses are reversible if the estimates applied to the assessment of the recoverable amount have changed. An impairment loss is reversible only up to the initial value of an asset, less depreciation/amortisation charges that would have been made if the impairment loss had not been recognised.

3.11. Equity

Ordinary shares are disclosed in equity, in the amount specified in the Parent's Articles of Association and registered with the National Court Register. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

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

Capital reserve is created from retained earnings in accordance with the objective set out in a resolution.

Exchange differences on translating foreign operations are disclosed in accordance with the policy described in note 3.3.2.

3.12. Trade payables and liabilities under borrowings

For the policy applied to measure trade payables, liabilities under borrowings and other financial liabilities, see note 3.4.2.

3.13. Employee benefits

3.13.1. Defined contribution plan

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

3.13.2. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the service is provided.
The Group recognises liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

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

Value of rights granted to employees to acquire the Parent shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The value of the plan is initially measured as at the grant date. Value of the options is recognised in the Group'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 Group to vest unconditionally. Any changes in the value of the plan are disclosed as an adjustment to values previously posted in the current period. 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 key factors affecting the cost recognised by the Group, including:

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

For the purpose of the valuation, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is purchase the shares corresponding to such options on the first day following the vesting period. The management stock option plans are described in note 23.

3.14. Provisions

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

3.15. Revenue

3.15.1. Revenue from debt collection

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

Revenue from credit management services

Revenue from fee-based credit management services comprises commission fees due for the collection of debts. Such revenue is recognised on an accrual basis, in the period in which the service was provided, based on defined percentage of collected amounts.

Revenue from purchased debt portfolios

<u>Revenue from debt portfolios</u>
The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash recovery projections that take into account the initial value (purchase price plus transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost in accordance with regulations applicable to purchased financial assets impaired due to credit risk, using an effective interest rate including an element that reflects credit risk, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the carrying amount of the portfolio. All actual recoveries collected during the period are recognised as a decrease in the carrying amount of the portfolio. Moreover, any changes in a portfolio's value resulting from changes in estimated timing and amounts of expected future cash recoveries for the portfolio are disclosed as revenue earned in a given period.

3.15.2. Revenue from loans

Revenue from loans is calculated at the effective interest rate. Expected credit losses are estimated on the basis of expected cash flows. Net changes in allowances for expected credit losses are recognised as income from loans.

3.15.3. Sale of other services

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

3.16. Lease payments

Lease payments are accounted for in accordance with IFRS 16; see note 3.3.2.
Minimum lease payments are apportioned between finance costs and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability.

3.17. Finance income and costs

Finance income includes interest income on funds invested by the Group (net of income on purchased debt (see note 3.4), and revenue from loans as part of operating activities (see note 3.4)), dividend receivable and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period using the effective interest rate method. Dividend is accounted for in profit or loss of the period as at the date when the Group becomes entitled to receive the dividend.
Finance costs include interest on debt financing, unwinding of the discount on provisions, and impairment losses on financial assets. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method. Foreign exchange gains and losses are posted in net amounts.

3.18. 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.
When determining amounts of current and deferred tax, the Group takes into account the impact of uncertainty concerning potential additional tax liabilities. However, facts and circumstances which may

materialize in the future, may have an effect on an assessment of correctness of the existing and past tax liabilities.

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

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

The Group 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.

3.19. Earnings per share

The Group 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 own shares held by the Group. Diluted earnings per share are calculated by dividing the adjusted profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares adjusted for the number of treasury shares and the dilutive effect of any potential shares.

3.20. Segment reporting

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

Operating results of each segment which are reported to the Parent'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.

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

A number of new Standards, amendments to Standards and Interpretations which were not yet effective for the annual periods ended December 31st 2019 have not been applied in preparing these consolidated 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 Group intends to apply them to the periods for which they are effective for the first time.

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

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the "EU IFRS") apply to reporting periods beginning on or after January 1st 2020:

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

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

3.21.2. Standards and interpretations that have been published but have not yet been adopted

Standards and interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for the periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *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 Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2016 *(The European Commission has decided to indefinitely postpone endorsement of these amendments)*
IFRS 17 *Insurance Contracts*	IFRS 17 replaces the transitional IFRS 4 Insurance Contracts introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions. IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2021

Amendments to IFRS 3 *Business Combinations*	The amendments narrow and clarify the definition of a business, and also provide for a simplified evaluation of whether a set of assets and activities is an asset group rather than a business.	The Group does not expect the amendments to have a significant impact on its consolidated financial statements.	January 1st 2020

4. Reporting and geographical segments

Reportable segments

Below, the Group presents its principal reportable segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated statement of profit or loss. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reportable segments conduct the following activities:

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

The performance of each reportable segment is discussed below. The key performance metrics for each reportable segment are gross profit and EBITDA, which are disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit and EBITDA are used to measure the segment's performance since the management believes them to be the most appropriate metrics for the assessment of the segment's results against other entities operating in the industry.
The Group's operating activities concentrate in a few geographical areas: Poland, Romania, the Czech Republic, Slovakia, Germany, Spain and Italy. A review of overhead expenses in Poland was carried out at the beginning of 2019, leading to a change in how overhead expenses of the Head Office are allocated among the individual countries, with the change effective from January 2019.

The Group's operations are divided into four main geographical segments:

- Poland,
- Romania,
- Italy,
- Other foreign markets

In the presentation of data by geographical segments, segments' revenue is recognised based on the location of debt collection offices.

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

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

For the year ended December 31st 2019

	Poland		Romania	Italy	Other foreign markets	Head Office	TOTAL
	Poland excluding Wonga.pl [3]	Wonga.pl [3]					
Revenue	**565,719**	**36,032**	**399,844**	**158,856**	**90,606**	**-**	**1,251,057**
Purchased debt portfolios	516,297	-	385,069	159,967	77,005	-	**1,138,338**
including revaluation of debt portfolios	*35,709*	-	*103,783*	*(13,995)*	*(64,533)*	-	***60,964***
Credit management services	25,447	-	14,161	(1,111)	13,601	-	**52,098**
Other products	23,975	36,032	614	**-**	**-**	**-**	**60,621**
Direct and indirect costs							**(586,022)**
Purchased debt portfolios	-		-	-	-	-	**(477,676)**
Credit management services	-		-	-	-	-	**(53,374)**
Other products	-		-	-	-	-	**(54,973)**
Gross profit[1]							**665,035**
Purchased debt portfolios	-		-	-	-	-	**660,663**
Credit management services	-		-	-	-	-	**(1,276)**
Other products	-		-	-	-	-	**5,648**
Administrative expenses	-		-	-	-	-	**(178,282)**
EBITDA [2]	318,158	(9,723)	294,151	(6,830)	(37,883)	(71,119)	**486,753**
Depreciation and amortisation	-		-	-	-	-	**(44,043)**
Other income	-		-	-	-	-	**8,687**
Other expenses (unallocated)	-		-	-	-	-	**(11,056)**
Finance income/costs	-		-	-	-	-	**(126,130)**

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

Profit before tax	-		-	-	-	-	**314,210**
Income tax	-		-	-	-	-	**(37,153)**
Net profit	-		-	-	-	-	**277,057**
Carrying amount of debt portfolios	**1,883,927**	**-**	**994,380**	**811,754**	**506,760**	**-**	**4,196,821**
Carrying amount of loans	**41,254**	**167,898**	**5,465**				**214,617**
Cash recoveries	**820,300**	**-**	**560,524**	**184,605**	**217,013**	**-**	**1,782,443**

[1] *Gross profit = operating income - operating expenses.*

[2] *EBITDA = operating profit – depreciation and* amortisation

[3] *Wonga.pl data from the share purchase agreement date, i.e. April 30th 2019.*

A review of overhead expenses in Poland was carried out at the beginning of 2019, leading to a change in how overhead expenses of the Head Office are allocated among the individual countries, with the change effective from January 2019. EBITDA for the year 2019 includes the effect of IFRS 16 implementation

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

For the year ended December 31st 2018

	Poland		Romania	Italy	Other foreign markets	Head Office	TOTAL
	Poland excluding Wonga.pl [3]	Wonga.pl [3]					
Revenue	**591,085**	**-**	**424,688**	**68,929**	**80,109**	**-**	**1,164,811**
Purchased debt portfolios	537,972	-	413,947	57,866	60,212	-	**1,069,997**
including revaluation of debt portfolios	*80,439*	-	*155,154*	*(87,122)*	*(41,045)*	-	***107,427***
Credit management services	26,123	-	10,320	11,063	19,897	-	**67,403**
Other products	26,990		421	**-**	**-**	**-**	**27,411**
Direct and indirect costs							**(500,918)**
Purchased debt portfolios	-	-	-	-	-	-	**(437,328)**
Credit management services	-	-	-	-	-	-	**(52,602)**
Other products	-	-	-	-	-	-	**(10,988)**
Gross profit[1]							**663,893**
Purchased debt portfolios	-	-	-	-	-	-	**632,669**
Credit management services	-	-	-	-	-	-	**14,801**
Other products	-	-	-	-	-	-	**16,423**
Administrative expenses	-	-	-	-	-	-	**(160,981)**
EBITDA [2]	330,615	-	328,019	(66,102)	(30,942)	(58,678)	**502,911**
Depreciation and amortisation	-	-	-	-	-	-	**(19,923)**
Other income	**-**	**-**	**-**	**-**	**-**	**-**	**4,876**
Other expenses (unallocated)	**-**	**-**	**-**	**-**	**-**	**-**	**(9,594)**
Finance income/costs	**-**	**-**	**-**	**-**	**-**	**-**	**(125,731)**

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

Profit before tax	-	-	-	-	-	-	352,540
Income tax	-	-	-	-	-	-	(22,128)
Net profit	-	-	-	-	-	-	330,412
Carrying amount of debt portfolios	**1,841,927**	-	**932,228**	**742,915**	**560,648**	-	**4,077,718**
Carrying amount of loans	**40,807**	-	**3,257**				**44,064**
Cash recoveries	**767,508**	-	**527,700**	**126,021**	**155,546**	-	**1,576,775**

[1] *Gross profit = operating income - operating expenses.*

[2] *EBITDA = operating profit – depreciation and* amortisation

[3] *Wonga.pl data from the share purchase agreement date, i.e. April 30th 2019.*

5. Revenue

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Revenue from purchased debt portfolios	1,138,338	1,069,997
Revenue from credit management services	52,098	67,403
Revenue from other services	60,621	27,411
	1,251,057	1,164,811

Income from financial assets measured at amortised cost

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Revenue from purchased debt portfolios	1,138,338	1,069,997
Revenue from loans	49,293	14,876
	1,187,631	1,084,873

Revenue from collection of purchased debt portfolios and income from loans (presented under revenue from other services) are calculated on financial assets measured at amortised cost using the effective interest rate method.

Revenue from purchased debt portfolios

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Interest income	976,883	873,403
Other income from purchased debt*	71,394	61,134
Revaluation of debt portfolios	60,964	107,427
Gain/(loss) on sale of debts	4,408	4,264
Foreclosure of property	25,678	25,271
Gain/(loss) on sale of property	(989)	(1,502)
	1,138,338	1,069,997

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

Revaluation of debt portfolios

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Revision of recovery projections	78,924	106,347
Foreign currency gains/losses	(17,960)	1,080
	60,964	107,427

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

a. risk premium,
b. period for which cash flows are estimated,
c. the value of expected future cash flows estimated using the current data and debt collection tools.

Assumptions adopted in the valuation of debt portfolios

	Dec 31 2019	Dec 31 2018
Discount rate		
- risk premium*	8.10% - 113.17%	8.10% - 420.22%
Period for which recoveries have been estimated	Jan 2020–Dec 2034	Jan 2019–Dec 2034
Undiscounted value of expected future recoveries	7,563,217	7,239,219

** Applicable to 99% of debt portfolios.*

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

PLN '000	Dec 31 2019	Dec 31 2018
Period		
Up to 12 months	1,662,753	1,610,716
From 1 to 2 years	1,585,210	1,502,131
From 2 to 3 years	1,277,781	1,255,767
From 3 to 4 years	938,026	966,812
From 4 to 5 years	706,581	647,285
Over 5 years	1,392,865	1,256,508
	7,563,217	7,239,219

Additional material information on revaluation as at December 31st 2019

PLN '000

Reportable segment	Revaluation for the entire reportable segment	Additional information	
Poland	35,709		
Romania	103,783	(23,961)	Revaluation of secured portfolios in Romania
Italy	(13,995)		
Other foreign markets	(64,533)	(22,364)	Revaluation of retail portfolios in Slovakia
		(45,646)	Revaluation of retail portfolios in Spain
Head Office	-		

Revenue from loans

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Interest income	87,444	14,459
Loss allowance for expected credit losses	(37,949)	417
Foreign currency gains/losses	(201)	-
	49,293	14,876

Interest income on loans was reduced by PLN 9,051 thousand in connection with the judgment of the Court of Justice of the EU, the decisions published by the UOKiK in January–February 2020 in proceedings against financial institutions, and UOKiK's position on the straight-line method of refunds of early repayment fees.

The increase in the loss allowance for expected credit losses in 2019 was mainly attributable to the consolidation of Wonga's financial statements (the Group acquired Wonga in April 2019).

Revenue from credit management services

Revenue from fee-based credit management comprises commission fees ranging from 2% to 49% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key trading partner accounts for 2% of total revenue from fee-based credit management (2018: 3%).

6. Other income

PLN '000

	Note	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Re-billed costs of services and court fees		2,188	1,117
Gain on occasional acquisition		1,981	
Return of compensation for damage caused by motor vehicles		644	672
Recovery of written-off receivables and expenses		2,444	-
Non-compete agreement		366	-
Gain on sale of property, plant and equipment		287	1,547
Reversal of impairment losses on receivables	29.1	77	70
Other		700	1,470
		8,687	4,876

The gain on occasional acquisition was attributable to the accounting for the acquisition of Wonga. For details, see note 15.

7. Services

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Credit management services	(31,710)	(25,528)
Administrative and accounting support services	(23,885)	(21,748)
Legal support services	(18,566)	(20,539)
Postal and courier services	(17,040)	(16,719)
IT services	(14,630)	(6,779)
Banking services	(9,918)	(10,147)
Marketing and management services	(9,305)	(3,729)
Space rental and service charges	(8,304)	(23,249)
Communications services	(7,171)	(6,838)
Printing services	(3,530)	(2,417)
Other auxiliary services	(2,329)	(4,554)
Security	(1,743)	(1,628)
Repair of vehicles	(1,299)	(1,044)
Recruitment services	(1,243)	(938)
Other rental	(906)	(5,347)
Repair and maintenance services	(404)	(375)
Packing services	(367)	(397)
	(152,389)	(152,035)

[*] Costs of space rental and service charges in 2019 are lower following the implementation of IFRS 16 as a result of discontinuation of the recognition of space rental fees under Other services - space rental and service charges, and recognition of amortisation expense of right-of-use assets of PLN 16,903 thousand as well as lease finance costs of PLN 2,755 thousand; in the reporting period ended December 31st 2019, the item comprised service charges only.

8. Other expenses

PLN '000	***Note***	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Court fees		(167,668)	(136,996)
Taxes and charges		(43,827)	(33,154)
Advertising		(12,618)	(4,798)
Raw materials and consumables used		(12,009)	(11,770)
Provision for possible differences straight-line basis settlement		(7,156)	-
Business trips		(5,894)	(6,010)
Staff training		(4,029)	(3,710)
Entertainment expenses		(2,065)	(3,008)
Re-billed costs of services		(1,546)	(1,817)
Motor insurance		(1,108)	(1,590)
Property insurance		(812)	(760)
Refund of litigation costs		(616)	-
Losses from damage caused by motor vehicles		(531)	(758)
Other consultancy services		(493)	-
Non-deductible VAT		(440)	(573)
Non-compete agreements		(414)	(256)
Membership fees		(414)	-
Impairment losses on receivables	*29.1*	(147)	(966)
Other		(4,187)	(3,598)
		(265,974)	(209,764)

9. Employee benefits expense

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Salaries and wages	(282,149)	(237,142)
Old-age and disability pension contributions (defined contribution plans)	(20,756)	(18,699)
Other social security contributions	(42,713)	(44,217)
Contribution to the State Fund for the Disabled	(1,722)	(1,518)
Equity-settled cost of stock option plan	(9,658)	(8,118)
	(356,998)	(309,694)

Old-age and disability pension contributions includes a provision for retirement severance payments (defined contribution plans) of PLN 3,642 thousand in 2019 and PLN 6,240 thousand in 2018.

10. Finance income and costs

Recognised in profit or loss for the current period

Finance income

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Interest income on bank deposits	211	148
	211	148

Finance costs

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Interest and commission expense on financial liabilities measured at amortised cost	(115,417)	(90,551)
Net foreign exchange losses	(11,781)	(38,670)
Interest income/expense on hedging instruments	1,872	1,892
Ineffective portion of remeasurement of hedging instruments	(1,016)	1,450
	(126,341)	(125,879)

Finance cost/income presented in the statement of cash flows does not include exchange differences on intragroup transactions.

The increase in finance costs is attributable, among other things, to the implementation of IFRS 16 Leases. In 2019, the lease costs resulting from the implementation of IFRS 16 were PLN 2,755 thousand.

Recognised in other comprehensive income

Exchange differences on translating foreign operations

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Exchange differences on translating foreign operations	(23,550)	(2,850)
Attributable to:		
Owners of the Parent	(23,550)	(2,850)
Non-controlling interests	-	-
Finance cost recognised directly in other comprehensive income	(23,550)	(2,850)

11. Income tax

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

PLN '000	***Note***	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Current income tax			
Current income tax payable		(31,872)	(25,223)
Adjustment to income tax for 2014		-	-
Deferred income tax			
Related to temporary differences and their reversal	*18*	(5,282)	3,095
Income tax recognised in profit or loss		(37,153)	(22,128)
Deferred income tax			
Related to temporary differences and their reversal	*18*	-	1,380
Income tax recognised in other comprehensive income		-	1,380
		(37,153)	(20,748)

Reconciliation of effective tax rate

The effective tax rate differs from the applicable tax rates as the consolidated data includes primarily data of entities whose operations are subject to deferred income tax upon realisation of income or payment of dividend.

PLN '000	**Jan 1-Dec 31 2019**	**Jan 1-Dec 31 2018**
Profit before tax	314,210	359,706
Tax calculated at the Parent's rate (19%)	(59,700)	(68,344)

Effect of application of other tax rates abroad and effect of deferred tax	7,738	(6,179)
Effect of non-deductible expenses/non-taxable income	14,809	52,395
Income tax recognised in profit or loss	(37,153)	(22,128)
Effective tax rate (%)	11.82%	6.15%

Tax risk

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

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

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

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

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

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

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

As at Dec 31 2019

PLN '000	*Note*	Dec 31 2019	Dec 31 2018
Assets			
Non-current assets			
Property, plant and equipment	*13*	82,973	26,354
Other intangible assets	*14.15*	50,252	33,877
Goodwill	*15*	47,206	62,010
Derivatives	*25*	4,219	1,450
Total non-current assets		184,650	123,691
Current assets			
Inventories		37	197
Investments	*16*	4,411,438	4,121,782
Investment property	*17*	34,655	35,188
Trade receivables	*19*	23,988	28,143
Other receivables	*20*	31,852	23,088
Cash and cash equivalents	*20*	150,274	147,302
Other assets	*21*	3,020	2,786
Total current assets		4,655,264	4,358,486
Total assets		4,839,914	4,482,177
Equity and liabilities			
Equity			
Share capital	*22*	18,972	18,887
Share premium		307,192	300,097
Cash flow hedging reserve		78	(3,869)
Exchange differences on translating foreign operations		(30,219)	(53,769)
Other capital reserves		104,582	94,924
Retained earnings		1,557,821	1,376,084
Equity attributable to owners of the Parent		1,958,426	1,732,354
Non-controlling interests		667	396
Total equity		1,959,093	1,732,750
Non-current liabilities			
Deferred tax liability	*18*	6,498	9,182
Borrowings, debt securities and leases	*24*	2,458,269	2,201,652
Derivatives	*25*	3,924	3,870
Total non-current liabilities		2,468,691	2,214,704
Current liabilities			
Borrowings, debt securities and leases	*24*	247,458	298,391
Trade and other payables	*27*	101,303	176,054
Income tax payable		6,673	15,600
Employee benefit obligations	*26*	49,539	44,678
Provisions	*28*	7,156	-
Total current liabilities		412,130	534,723

Total liabilities	2,880,821	2,749,427
Total equity and liabilities	4,839,914	4,482,177

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

13. Property, plant and equipment

Gross carrying amount of 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 as at Jan 1 2018	779	29,141	27,211	4,890	3,100	65,121
Acquisition resulting from business combinations	-	60	-	101	-	161
Purchase	20	4,420	4,007	1,077	4,280	13,806
Sale/ liquidation	(130)	(2,055)	(8,757)	(1,347)	(3,339)	(15,629)
Transfer of property, plant and equipment under construction	-	-	-	2,696	(2,696)	-
Effect of exchange rate changes	(0)	(130)	(17)	(170)	(16)	(334)
Gross carrying amount as at Dec 31 2018	669	31,436	22,443	7,248	1,329	63,125

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross carrying amount as at Dec 31 2018	669	31,436	22,443	7,248	1,329	63,125
Impact of IFRS 16	**56,079**	**492**	**10,107**	**-**	**-**	**66,678**
Gross carrying amount as at Jan 1 2019	56,748	31,928	32,550	7,248	1,329	129,803
Acquisition resulting from business combinations	3,734	141	-	-	-	3,875
Purchase	4,885	8,085	6,211	338	2,075	21,594
Sale/ liquidation	(68)	(1,586)	(1,845)	(47)	(2,712)	(6,258)
Transfer of property, plant and equipment under construction	-	-	-	-	-	-
Effect of exchange rate changes	(709)	(69)	(64)	(61)	(4)	(907)
Gross carrying amount as at Dec 31 2019	64,591	38,499	36,853	7,478	687	148,107

Depreciation and impairment losses

PLN '000

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation and impairment losses as at Jan 1 2018	(138)	(17,573)	(15,512)	(3,229)	-	(36,452)
Increase resulting from business combination						-
Depreciation	(49)	(5,253)	(4,943)	(961)	-	(11,206)
Decrease resulting from sale/ liquidation	130	1,987	7,896	818	-	10,831
Effect of exchange rate changes	0	53	32	(31)		55
Accumulated depreciation and impairment losses as at Dec 31 2018	(57)	(20,785)	(12,527)	(3,403)	-	(36,772)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL
Accumulated depreciation and impairment losses as at Jan 1 2019	(57)	(20,785)	(12,527)	(3,403)	-	(36,772)
Increase resulting from business combination	-	-	-	-	-	-
Depreciation	(16,127)	(5,804)	(8,884)	(1,340)	-	(32,154)
Decrease resulting from sale/ liquidation	17	1,563	1,522	140		3,243
Effect of exchange rate changes	143	209	132	64		549
Accumulated depreciation and impairment losses as at Dec 31 2019	(16,024)	(24,817)	(19,755)	(4,538)	-	(65,134)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount						
As at Jan 1 2018	641	11,568	11,699	1,661	3,100	28,669
As at Dec 31 2018	612	10,651	9,917	3,845	1,329	26,354
Impact of IFRS 16	56,079	492	10,107	-	-	66,678
As at Jan 1 2019	56,691	11,143	20,024	3,845	1,329	93,032
As at Dec 31 2019	48,567	13,682	17,097	2,940	687	82,973

Right of use

PLN '000	**Dec 31 2019**
Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at January 1st 2019	
Buildings and structures	56,079
Plant and equipment	492
Vehicles	18,788
	75,359
Cost of amortisation of right-of-use assets, by class of underlying asset	
Buildings and structures	(16,063)
Plant and equipment	(182)
Vehicles	(8,872)
	(25,118)
Increase in right-of-use assets	11,097
Right-of-use assets as at acquisition of Wonga.pl	3,734
Decrease in right-of-use assets	(254)
Translation differences	(511)
Carrying amount of right-of-use assets at end of the reporting period, by class of underlying asset, as at December 31st 2019	
Buildings and structures	48,598
Plant and equipment	308
Vehicles	16,423
	65,329
Interest expense relating to lease liabilities	2,767
Cost relating to variable lease payments not included in the measurement of lease liabilities	33
Total cash outflow in connection with leases	18,593

14. Other intangible assets

PLN '000

	Software, licences, permits	**Other**	**Intangible assets under development**	**Assets amortised over time**	**Total**
Gross carrying amount of intangible assets					
Gross carrying amount as at Jan 1 2018	48,329	369	-	-	48,698
Acquisition resulting from business acquisitions	8,881	-	-	-	8,881
Produced internally	6,106	-	-	-	6,106
Other increase	1,950	-	425	-	2,375
Decrease	(3,455)	-	-	-	(3,455)
Effect of exchange rate changes	(138)	-	-	-	(138)
Gross carrying amount as at Dec 31 2018	61,674	369	425	-	62,468
Gross carrying amount as at Jan 1 2019	61,674	369	425	-	62,468
Acquisition resulting from business acquisitions	14,688	-	-	-	14,688

Produced internally	7,181	-	-	-	7,181
Other increase	5,272	-	-	976	6,248
Decrease	(7,452)	-	(356)	-	(7,808)
Effect of exchange rate changes	(303)	-	-	-	(303)
Gross carrying amount as at Dec 31 2019	81,060	369	69	976	82,474
					-

PLN '000

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Accumulated amortisation and impairment losses					
Accumulated amortisation and impairment losses as at Jan 1 2018	(21,500)	(369)	-	-	(21,869)
Amortisation	(8,717)	-	-	-	(8,717)
Decrease	2,023	-	-	-	2,023
Effect of exchange rate changes	(28)	-	-	-	(28)
Accumulated amortisation and impairment losses as at Dec 31 2018	(28,222)	(369)	-	-	(28,591)
Accumulated amortisation and impairment losses as at Jan 1 2019	(28,222)	(369)	-	-	(28,591)
Amortisation	(11,889)	-	-	-	(11,889)
Decrease	8,106	-	-	-	8,106
Effect of exchange rate changes	152				152
Accumulated amortisation and impairment losses as at Dec 31 2019	(31,853)	(369)	-	-	(32,222)

PLN '000

	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
Net carrying amount					
As at Jan 1 2018	26,830	-	-	-	26,830
As at Dec 31 2018	33,452	-	425	-	33,877
As at Jan 1 2019	33,452	-	425	-	33,877
As at Dec 31 2019	49,207	-	69	976	50,252

15. Goodwill and accounting for acquisition of subsidiary

PLN '000	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK Espana S.L.	ERIF BIG S.A.	AgeCredit S.r.l	Wonga.pl sp. z o.o.	Total
Gross carrying amount as at Jan 1 2018	299	5,002	47,977	725	-		54,003
Increase	-	-	-	-	8,007		8,007
Decrease	-	-	-	-	-		-
Gross carrying amount as at Dec 31 2018	299	5,002	47,977	725	8,007		62,010
Gross carrying amount as at Jan 1 2019	299	5,002	47,977	725	8,007		62,010
Increase	-	-	-	-	-		-
Decrease	-	-	-	-	-		-
Translation differences	-	(81)	(1,795)	-	184		(1,692)
Gross carrying amount as at Dec 31 2019	299	4,921	46,182	725	8,191		60,318
Impairment losses							
Impairment loss as at Jan 1 2018	-	-	-	-	-		-
Increase	-	-	-	-	-		-
Decrease	-	-	-	-	-		-
Impairment loss as at Dec 31 2018	-	-	-	-	-		-
Impairment loss as at Jan 1 2019	-	-	-	-	-		-
Increase	-	(4,921)	-	-	(8,191)		(13,112)
Decrease	-	-	-	-	-		-
Impairment loss as at Dec 31 2019	-	(4,921)	-	-	(8,191)		(13,112)
Net carrying amount							
As at Jan 1 2018	299	5,002	47,977	725	-		54,003
As at Dec 31 2018	299	5,002	47,977	725	8,007		62,010
As at Jan 1 2019	299	5,002	47,977	725	8,007		62,010
As at Dec 31 2019	299	-	46,182	725	-		47,206

On April 30th 2019, the Parent purchased 100% of the shares in Wonga.pl Sp. z.o.o. from Wonga Worldwide Limited (in administration). Wonga.pl specialises in short-term and hire purchase online lending on the Polish market. The economic substance of the transaction is an acquisition of a company. The transfer of control to the KRUK Group took place on signing the agreement.

The KRUK Group acquired Wonga with a view to increasing its market share in Polish consumer lending market. The acquisition was accounted for in accordance with IFRS 3. Following the accounting for the transaction, there are no non-controlling interests in the acquiree.

The purchase agreement provides for funding of the acquiree's day-to-day liabilities. Under the agreement, Kruk granted a loan to Wonga.pl to finance the payment of its day-to-day liabilities towards Wonga Worldwide Limited (in administration).

The acquisition was accounted for provisionally as at December 31st 2019. The Group has 12 months from the acquisition date to finally account for the acquisition cost.

Provisional accounting for the acquisition of Wonga.pl is as follows:

PLN '000

ASSETS	**Wonga PL sp. z o.o. data as at Apr 30 2019 (based on the value disclosed in the financial statements)**	**Fair value adjustment**	**Fair value as at the acquisition date Apr 30 2019**
Cash and cash equivalents	4,144	-	4,144
Trade receivables	746	(41)	705
Investments in loans	95,872	(8,499)	87,373
Property, plant and equipment	3,882	-	3,882
Intangible assets	14,688	-	14,688
Investments in subsidiaries	10	(10)	-
Deferred tax asset	6,631	1,621	8,252
Other assets	550	-	550
TOTAL ASSETS	126,523	(6,929)	119,594

LIABILITIES	**Wonga PL sp. z o.o. data as at Apr 30 2019** (based on the value disclosed in the financial statements)	**Fair value adjustment**	**Fair value as at the acquisition date Apr 30 2019**
Trade and other payables	10,065	-	10,065
Employee benefit obligations	443	80	523
Borrowings and other financial liabilities	106,127	64	106,191
TOTAL LIABILITIES	116,635	144	116,779

The acquired assets and liabilities were measured at fair value.

As a result of accounting for the acquisition of Wonga Polska Sp. z o.o. there was a gain on occasional acquisitions of PLN 1,981 thousand (recognised in the consolidated statement of profit or loss as other income). KRUK S.A. paid PLN 835 thousand in cash to Wonga Worldwide Limited (in administration) in exchange for 100% of Wonga Polska Sp. z o.o.'s assets, whose fair value as at the acquisition date was PLN 2,815 thousand.
As part of the acquisition, Wonga.pl also received a PLN 96,191 thousand loan to repay its day-to-day liabilities to Wonga Worldwide Limited.

As part of the transaction, KRUK S.A. acquired:

- loans with a gross carrying amount of PLN 113,117 thousand; the best estimate as at the acquisition date of contractual cash flows which cannot be reliably expected to occur, discounted at market discount rates determined based on newly advanced loans, is PLN 25,743 thousand; fair value of the loans is PLN 87,373 thousand,
- gross receivables of PLN 746 thousand; best estimate as at the acquisition date of contractual cash flows not expected to be received is PLN 41 thousand; fair value is PLN 705 thousand. the best estimate as at the acquisition date of the contractual cash flows which cannot be reliably expected to occur is PLN 41 thousand; fair value of receivables is PLN 705 thousand.

Wonga.pl's revenue and losses for the period from the acquisition date to the end of the reporting period were PLN 36,032 thousand and PLN -18,462 thousand, respectively.

Revenues and losses of Wonga.pl measured in accordance with the statutory rules for the period from the beginning of the year to the end of the reporting period amounted respectively: PLN 69,835 thousand and PLN -20,192 thousand, respectively.

The acquiree data was recognised in the consolidated financial statements of the KRUK Group as at the acquisition date, i.e. April 30th 2019.

The Group estimated that if the acquisition took place on January 1, 2019, the value of the Group's consolidated revenues and consolidated profit for the period from the beginning of the year to the end of the reporting period would be: PLN 1,268,394 thousand and PLN 267,912 thousand, respectively. Estimating the above amounts, it was assumed that the adjustment to fair value, which was recognized as at the date of acquisition, would be the same as at January 1, 2019.

Impairment testing of cash-generating units which include goodwill

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.

For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest cash-generating units (not larger than the Group's operating segments described in note 4) for which goodwill is monitored for internal management purposes.

Recoverable amount of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units. In order to perform goodwill tests, cash-generating units associated with given goodwill were defined first. It was determined that the cash-generating unit in the case of KRUK Espana S.L., KRUK Italia S.r.l and AgeCredit S.r.l. was the credit management business (debt collection services for unrelated undertakings) as such was both companies' business profile prior to the acquisition and these activities are continued. The key assumption underlying the calculation of recoverable amount is the level of margin earned on the credit management services provided to clients. The assumptions adopted are based on historical performance, current knowledge of the credit management market and the potential of operating structures.

Next, a five-year forecast of cash flows related to this activity was made. To calculate the discount rate, the Group uses the weighted average cost of capital for the debt collection industry. To calculate cost of equity, the Group applied the Capital Asset Pricing Model (CAPM) based on financial data of debt collection companies operating on global markets (as at December 31st 2019, weighted average cost of capital for the debt collection industry was at 6.82%). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 1.49% for Spain and 1.28% for Italy.

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In the case of KRUK Espana S.L., a 30% decline in EBITDA in the forecast period would require recognition of an impairment loss on goodwill. In 2019, as a result of a change in the estimated future cash flows due to lower operating profitability, impairment losses were recognised on goodwill of AgeCredit and Kruk Italia.

16. Investments

Investments measured at amortised cost

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Investments in debt portfolios	4,196,821	4,077,718
Loans	214,617	44,064
	4,411,438	4,121,782

Debt portfolios

For the rules followed in the valuation of purchased debt portfolios, see note 3.4.1. Purchased debt portfolios are divided into the following main categories:

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Unsecured portfolios	3,381,998	3,279,395
Secured portfolios	814,823	798,323
	4,196,821	4,077,718

Unsecured portfolios are retail, unsecured portfolios. Secured portfolios include mortgages as well ascorporate secured and unsecured portfolios.

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

	Dec 31 2019	Dec 31 2018
Discount rate		
- risk premium*	8.10% - 113.17%	8.10% - 420.22%
Period for which recoveries have been estimated	Jan 2020–Dec 2034	Jan 2019–Dec 2034
Undiscounted value of expected future recoveries	7,563,217	7,239,219

** Applicable to 99% of debt portfolios.*

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

PLN '000	Dec 31 2019	Dec 31 2018
Period		
Up to 12 months	1,662,753	1,610,716
From 1 to 2 years	1,585,210	1,502,131
From 2 to 3 years	1,277,781	1,255,767
From 3 to 4 years	938,026	966,812
From 4 to 5 years	706,581	647,285
Over 5 years	1,392,865	1,256,508
	7,563,217	7,239,219

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

If necessary, as at the end of each quarter the Group 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 are estimated,
- the value of expected future cash flows estimated based on current data and currently used debt collection tools.

Sensitivity analysis – revision of projections

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in recoveries by 100 bps	decrease in recoveries by 100 bps	increase in recoveries by 100 bps	decrease in recoveries by 100 bps
Dec 31 2019				
Investments in debt portfolios	36,007	(36,007)	-	-
Dec 31 2018				
Investments in debt portfolios	34,664	(34,664)	-	-

Sensitivity analysis – time horizon

PLN '000

	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one year	**shortening by one year**	**extension by one year**	**shortening by one year**
Dec 31 2019				
Investments in debt portfolios	1,977	(6,166)	-	-
Dec 31 2018				
Investments in debt portfolios	4,474	(8,542)	-	-

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

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

PLN '000	
Carrying amount of purchased debt portfolios as at Dec 31 2017	**3,120,562**
Impact of changes in accounting policies following application of IFRS 9	**29,582**
Carrying amount of purchased debt portfolios as at Jan 1 2018	**3,150,144**
Purchase of debt portfolios	1,394,581
Purchase price adjustment for discount	(245)
Cash recoveries	(1,576,775)
Increase/(decrease) in liabilities to debtors due to overpayments	589
Valuation of loyalty scheme	6,283
Payments from original creditor	(5,452)
Revenue from purchased debt portfolios (interest and revaluation)	1,069,997
Translation differences on debt portfolios	38,596
Carrying amount of purchased debt portfolios as at Dec 31 2018	**4,077,718**
Carrying amount of purchased debt portfolios as at Jan 1 2019	**4,077,718**
Purchase of debt portfolios	780,998
Cash recoveries	(1,782,443)
Increase/(decrease) in liabilities to debtors due to overpayments	4,988
Valuation of loyalty scheme	4,456
Revenue from purchased debt portfolios (interest and revaluation)	1,138,338
Translation differences on debt portfolios	(27,234)
Carrying amount of purchased debt portfolios as at Dec 31 2019	**4,196,821**

Joint arrangements

On July 29th 2016, the KRUK Group, 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 KRUK Group 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 KRUK Group 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 KRUK Group and IFC hold respectively 67% and 33% 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 KRUK Group took into consideration:

- The economic substance of the transaction, according to which the KRUK Group 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 2019, the value of the KRUK Group's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 96,936 thousand, while revenue shown in the statement of profit or loss was PLN 50,617 thousand (note 2.4).

Loans

In 2019, the Group continued to offer consumer loans. Loans are granted for up to PLN 20 thousand and their maturities range from 3 to 60 months. The loans bear interest at fixed rates. Additional revenue comprises commission fees and arrangement fees.

As per the basket methodology described in note 3.4.1, the structure of loans at the end of the reporting periods was as follows:

	IFRS 9 classification	Carrying amount as at Dec 31 2019	Carrying amount as at Dec 31 2018
Investments (loans)			
	Basket 1	186,183	-
	Basket 2	34,789	38,577
	Basket 3	52,556	19,845
	POCI loans	2,408	-
		275,937	58,422
Loss allowance for expected credit losses			
	Basket 1	21,298	-
	Basket 2	6,730	3,480
	Basket 3	33,293	10,878
	POCI loans	-	-
		61,320	14,358
Net carrying amount		214,617	44,064

Below are presented changes in the net carrying amount of loans:

PLN '000	
Carrying amount of loans as at Jan 1 2018	**31,884**
New disbursements	36,079
Repayments	(40,437)
Revenue from loans	14,884
Loss allowance for expected credit losses	(1,700)
Currency translation differences	97
Carrying amount of loans as at Dec 31 2018	**40,807**
Carrying amount of loans as at Jan 1 2019	**40,807**
Loans acquired with Wonga.pl Sp. z o.o., at fair value	87,373
New disbursements	327,599
Repayments	(290,167)
Revenue from loans	87,444
Loss allowance for expected credit losses	(30,603)
Sale of loans	(7,346)
Currency translation differences	(490)
Carrying amount of loans as at Dec 31 2019	**214,617**

Changes in loss allowance for expected credit losses:

	Jan 1-Dec 31 2019			Jan 1-Dec 31 2018		
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**Basket 1**	**Basket 2**	**Basket 3**
Loss allowance as at Jan 1	-	3,480	10,878	-	2,926	9,476
Impairment loss recognised in the reporting period	33,556	19,175	-	-	557	1,402
Transfer from basket 1 to basket 2	(4,967)	4,967	-	-	-	-
Transfer from basket 1 to basket 3	(7,291)	-	7,291	-	-	-
Transfer from basket 2 to basket 3		(20,893)	20,893	-	-	-
Reversal of allowance for expected credit losses	-	-	(5,769)	-	(3)	-
Use of loss allowance	-	-	-	-	-	-
Loss allowance as at Dec 31	**21,298**	**6,730**	**33,293**	**-**	**3,480**	**10,878**

The amount of the impairment loss is determined for individual expected loss recognition buckets, based on estimates that reflect the risk of incurring the expected loss, made taking into account the stage of delinquency (note 3.4.1). The amount of loss allowance as at the end of the reporting period covers 22.2% of gross loans.

Through the acquisition of WONGA, the Group acquired loans past due more than 90 days, which were classified as purchased or originated credit impaired (POCI) assets. Initially such assets are recognised at net amount (i.e. net of impairment losses) corresponding to the assets' fair value at the acquisition date. The Group measures POCI assets at amortised cost. As at the date of acquisition of WONGA, the gross value of impaired financial assets due to credit risk and the write-off due to expected credit losses amounted to PLN 13,487 thousand and PLN 8,441 thousand, respectively. As at December 31, 2019, the gross value and write-off due to expected credit losses for the above assets amounted to PLN 10,611 thousand and PLN 8,203 thousand, respectively.

Sensitivity analysis – revision of projections

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	increase in recoveries by 100 bps	**decrease in recoveries by 100 bps**	**increase in recoveries by 100 bps**	**decrease in recoveries by 100 bps**
Dec 31 2019				
Investments in loans	2,143	(2,144)	-	-
Dec 31 2018				
Investments in loans	405	(406)	-	-

Sensitivity analysis – time horizon

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	extension by one month	**reduction by reduction**	**extension by one month**	**reduction by reduction**
Dec 31 2019				
Investments in loans	(3,395)	1,848	-	-
Dec 31 2018				
Investments in loans	(1,852)	1,236	-	-

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

17. Investment property

PLN '000	Dec 31 2019	Dec 31 2018
Investment property	34,655	35,188

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

PLN '000	
Carrying amount of property held as at Jan 1 2018	**23,869**
Value of foreclosed property	25,190
Carrying amount of property sold	(12,118)
Income from sale of property	(1,753)
Carrying amount of property held as at Dec 31 2018	**35,188**
Carrying amount of property held as at Jan 1 2019	**35,188**
Value of foreclosed property	25,548
Carrying amount of property sold	(25,092)
Income from sale of property	(989)
Carrying amount of property held as at Dec 31 2019	**34,655**

Investment property is measured at fair value.

18. Deferred tax

Deferred tax assets and liabilities

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

PLN '000	Assets		Provisions		Net carrying amount	
	Dec 31 2019	Dec 31 2018	Dec 31 2019	Dec 31 2018	Dec 31 2019	Dec 31 2018
Property, plant and equipment	4,513	1,321	(4,909)	(1,742)	(396)	(421)
Intangible assets	-	-	(4,841)	(2,627)	(4,841)	(2,627)
Tax losses deductible in future periods	11,323	1,482	-		11,323	1,482
Trade and other receivables	121	-	(243)	(173)	(122)	(173)
Borrowings and other debt instruments	18,496	10,675	-	-	18,496	10,675
Employee benefit obligations	2,391	2,001	-	-	2,391	2,001
Provisions and liabilities	3,656	2,265	-	-	3,656	2,265
Investments	21,429	3,267	(58,435)	(25,651)	(37,006)	(22,384)
Hedge derivatives		-	-	-	-	-
Deferred tax assets/liabilities	61,930	21,011	(68,428)	(30,193)	(6,498)	(9,182)
Deferred tax assets offset against liabilities	(61,930)	(21,011)	61,930	21,011	-	-
Deferred tax assets/liabilities in the statement of financial position	-	-	(6,498)	(9,182)	(6,498)	(9,182)

Change in temporary differences in the period

PLN '000	As at Jan 1 2019	Change in temporary differences recognised in profit or loss for current period	Change in temporary differences related to acquisition of Wonga.pl	As at Dec 31 2019	As at Jan 1 2018	Change in temporary differences recognised in profit or loss for current period	As at Dec 31 2018
Property, plant and equipment	(421)	25	-	(396)	(116)	(305)	(421)
Intangible assets	(2,627)	(2,214)	-	(4,841)	(2,395)	(232)	(2,627)
Tax losses deductible in future periods	1,482	9,842	-	11,323	-	1,482	1,482
Trade and other receivables	(173)	51	-	(122)	(10,338)	10,165	(173)
Borrowings and other debt instruments	10,675	7,821	-	18,496	2,005	8,670	10,675
Employee benefit obligations	2,001	390	-	2,391	890	1,112	2,001
Provisions and liabilities	2,265	1,391	-	3,656	1,211	1,054	2,265
Investments	(22,384)	(22,861)	8,239	(37,006)	(4,322)	(18,062)	(22,384)
	(9,182)	(5,282)	8,239	(6,498)	(13,064)	3,095	(9,182)

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

The change in temporary differences recognised in profit or loss for the current period amounted to PLN -5,282 thousand and differed from the amount referred to above by PLN 8,239 thousand, which is equivalent to the amount of deferred tax assets acquired as part of the acquisition of Wonga.pl.

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 foreseeable future. The total amount of temporary differences underlying the unrecognised deferred tax liability on retained earnings as at December 31st 2019 was PLN 1,250,455 thousand (as at December 31st 2018: PLN 1,223,280 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 of ERIF, Erif Bussines Solution, and Secapital Polska and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**Dec 31 2019**	**Dec 31 2018**
Tax loss for 2014	Dec 31 2019	-	1,277
Tax loss for 2015	Dec 31 2020	698	698
Tax loss for 2016	Dec 31 2021	265	265
Tax loss for 2017	Dec 31 2022	18	18
Tax loss for 2018	Dec 31 2023	64	64
Tax loss for 2019	Dec 31 2024	62	-
		1,106	2,322
Applicable tax rate		19%	19%
Potential benefit of tax losses		210	441

Deferred tax assets of PLN 210 thousand (2018: PLN 441 thousand) were not included in the calculation of deferred tax as the probability of their use was uncertain.

19. Trade and other receivables

Trade receivables

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Trade receivables	23,988	28,143
	23,988	28,143
Long-term	-	-
Short-term	23,988	28,143
	23,988	28,143

Other receivables

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Taxes receivable (other than income tax)	16,341	12,297
Receivables under security deposits and bid bonds	9,488	7,150
Receivables under collected debts	5,365	2,925
Other receivables	573	448
Receivables for court fees and stamp duty	85	268
	31,852	23,088

Taxes receivable (other than income tax) comprise VAT receivable.

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

20. Cash and cash equivalents

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Cash in hand	233	57
Cash in current accounts	150,041	147,245
	150,274	147,302

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

21. Other assets

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Expenses relating to future reporting periods	1,342	1,015
Insurance	866	878
Other	574	407
Development expense	238	486
	3,020	2,786

22. Equity

Share capital

	2019	**2018**
'000		
Number of shares as at Jan 1	18,887	18,808
Issue of shares	85	79
Number of fully-paid shares at end of period	18,972	18,887
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at Jan 1	18,887	18,808
Par value as at Dec 31	18,972	18,887

Parent's shareholding structure as at December 31st 2019

Shareholder	Number of shares	Par value of shares (PLN '000)	Ownership interest (%)
Piotr Krupa	1,886,666	1,887	9.94%
NN PTE (*)	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%

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

Other capital reserves

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

Share-based payments

Incentive Scheme for 2015−2019

On May 28th 2014, the Annual General Meeting of KRUK S.A. passed Resolution No. 26/2014 on setting the rules of an incentive scheme for 2015–2019, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association (the "2015−2019 Incentive Scheme"). The 2015−2019 Incentive Scheme is addressed to the key management personnel of KRUK S.A. and the other Group companies.

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

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

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

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

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

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

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

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

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

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

Tranche 1

On June 9th 2016, the Supervisory Board of KRUK S.A. passed a resolution confirming the fulfilment of the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 1 for 2015. On June 17th 2016, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015−2019 Incentive Scheme.

On this basis, on June 22nd 2016, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 1 subscription warrants. As a result, 86,435 subscription warrants were delivered to the eligible persons on July 1st 2016.

On August 27th 2016, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015−2019 Incentive Scheme. The list was changed by the Management Board's resolution of October 24th 2016. The resolution was approved by the Supervisory Board's resolution of October 27th 2016. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 subscription warrants under the 2015−2019 Incentive Scheme. On October 27th 2016, 20,000 subscription warrants were delivered to the eligible persons, members of the Management Board.

By the issue date of this report, 82,574 Tranche 1 warrants were converted into new Series F shares. Thus, 23,861 Tranche 1 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by the eligible persons. 13,500 of those warrants are held by members of the Management Board.

Tranche 2

By resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 2 for 2016 had been satisfied.

On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015−2019 Incentive Scheme.

On this basis, on July 4th 2017, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 2 subscription warrants. As a result, 91,467 subscription warrants were delivered to the eligible persons on July 7th 2017.

On August 1st 2017, the Company's Management Board passed a resolution to change the list of Management Board members eligible to participate in the 2015−2019 Incentive Scheme. The resolution was approved by the Supervisory Board on August 7th 2017. On August 10th 2017, the Company's Management Board determined the list of Management Board members eligible to acquire Tranche 2 subscription warrants for 2016. On this basis, the Supervisory Board invited the eligible Management Board members to acquire Tranche 2 subscription warrants under the 2015−2019 Incentive Scheme. On August 22nd 2017, 50,480 subscription warrants were delivered to the eligible members of the Management Board.

By the issue date of this report, 94,308 Tranche 2 warrants were converted into new Series F shares. 47,639 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by the eligible persons. 30,650 of those warrants are held by members of the Management Board.

Tranche 3

By resolution dated May 11th 2018, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 3 for 2017 had been satisfied.

On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Incentive Scheme. On this basis, on June 20th 2018, the Management Board invited eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to the eligible persons on July 3th 2018.

On September 11th 2018, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015−2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015−2019 Incentive Scheme. On September 17th 2018, 54,344 subscription warrants were delivered to the eligible persons, members of the Management Board.

By the issue date of this report, 50,713 Tranche 3 warrants were converted into new Series F shares. 102,741 Tranche 3 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 54,344 of those warrants are held by members of the Management Board.

Tranche 4

By resolution dated July 15th 2019, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 4 for 2018 had been satisfied.

On July 16th 2019, the Management Board passed a resolution containing the list of Management Board members eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme. On July 22nd 2019, the Supervisory Board passed a resolution to approve the Management Board's Resolution No. 235/2019 containing the list of Management Board members eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme.

On July 24th 2019, the Management Board passed a resolution containing the list of persons who are not Management Board members and are eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015−2019 Incentive Scheme. On this basis, on July 25th 2019, the Management Board invited eligible persons other than Management Board members to acquire Tranche 4 subscription warrants. As a result, 115,528 subscription warrants were delivered to the eligible persons on August 27th 2019.

As at December 31st 2019 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 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

Translation reserve

Exchange differences on translating subordinates include exchange differences on translating foreign operations.

PLN '000	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
InvestCapital Ltd.	19,456	(207)
SeCapital S.à r.l.	2,345	13,686
KRUK Italia	(285)	(10,607)
Kruk Deutschland GmbH	(639)	1,705
KRUK Espana S.L.	(320)	(3,218)
KRUK Romania S.r.l	(253)	804
ItaCapital S.r.l	457	(980)
KRUK Česká a Slovenská republika s.r.o.	194	1,215
ProsperoCapital S.a r.l.	2,403	-
Other	192	452
	23,550	2,850

23. Earnings per share

Basic earnings per share

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

Net profit attributable to owners of the Parent

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Net profit for the period	277,057	330,412
Non-controlling interests	(667)	(396)
Net profit attributable to ordinary shareholders of the Parent	276,390	330,016

Weighted average number of ordinary shares

'000	*Note*	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Number of ordinary shares as at Jan 1	*22*	18,887	18,808
Effect of cancellation and issue		29	35
Weighted average number of ordinary shares in the period ended Dec 31		18,916	18,843

PLN		
Earnings per share	14.61	17.51

Dividend per share paid

PLN '000

	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
Dividend paid from profit and retained earnings	94,653	94,040

PLN		
Dividend per share	5.00	5.00

Diluted earnings per share

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

Weighted average number of ordinary shares (diluted)

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

24. Borrowings, debt securities and leases

This note contains information on the Group's borrowings, debt securities and leases measured at amortised cost. For information on the Group's exposure to currency, liquidity and interest rate risks, see note 29.

PLN '000	Dec 31 2019	Dec 31 2018
Non-current liabilities		
Secured borrowings	1,145,889	1,057,384
Liabilities under debt securities (unsecured)	1,267,601	1,142,906
Lease liabilities	44,779	1,362
	2,458,269	2,201,652
Current liabilities		
Short-term portion of secured borrowings	134,353	73,632
Liabilities under debt securities (unsecured)	93,575	216,966
Short-term portion of lease liabilities	19,530	7,793
	247,458	298,391

Terms and repayment schedule of borrowings, debt securities and leases

PLN '000	Currency	Nominal interest rate	Maturity	Dec 31 2019	Dec 31 2018
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0-2.25pp; 1M EURIBOR + margin of 2.2-2.40pp; 3M EURIBOR + margin of 2.40pp	2024	1,280,242	1,131,016
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 3.0-4.0pp	2023	1,361,176	1,359,872
Lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.6-4pp	2022	64,309	9,155
				2,705,727	2,500,043

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at Dec 31 2019			
up to 1 year	20,186	656	19,530
from 1 to 5 years	46,309	1,530	44,779
	66,495	2,186	64,309
As at Dec 31 2018			
up to 1 year	5,817	67	5,750
from 1 to 5 years	3,551	146	3,405
	9,368	213	9,155

Security over assets

PLN '000	Dec 31 2019	Dec 31 2018
Registered pledge over purchased debt portfolios financed with a credit facility, with assignment of claims, registered pledge over shares in SeCapital S.à r.l., registered pledge over bonds of Itacapital S.rl	2,451,924	1,875,306
Property, plant and equipment used under lease contracts	8,345	9,155
	2,460,269	1,884,461

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

25. Derivatives

Derivatives designated for hedge accounting

Interest rate risk hedges

The Company's exposure to interest rate risk arises mainly from borrowings and debt securities issued (notes 24 and 29.3).

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

The interest rate risk management policy covers the following:

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

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

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

Contract 1: The Group 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 Group 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 Group expects cash flows to be generated and to have an effect on its results until 2022.

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

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

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

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

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

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

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

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

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

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

Contract 6: The Group pays at a fixed rate of 1.67%, while the counterparty pays at 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 Group expects cash flows to be generated and to have an effect on its results in the period until 2024.

The Group 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.

Currency risk hedges

The Company's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (note 29.3).

The currency risk management policy outlines:

- the Group's currency risk management objectives;
- the key rules of currency risk management at the Group;

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

- 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 Group took steps to hedge currency risk arising from the translation of net assets in a foreign entity; the hedging transactions were executed by subsidiaries. It is the Group's objective to mitigate the effect of exchange differences arising on consolidation of foreign subsidiaries on the consolidated financial statements. Transactions entered into by KRUK S.A. and settled on a net basis, with no physical delivery.

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

As at December 31st 2019, the Group companies did not carry any unsettled forward contracts.

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

Amounts related to items designated as hedging instruments

PLN '000	Carrying amount/fair value of derivatives									
	Dec 31 2019				Dec 31 2018					
	Assets	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Assets**	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Item in the statement of financial position**	**Type of security**
Instrument type:										
IRS	-	3,924	PLN 275,000	3,924	-	3,870	PLN 200,000	3,870	Derivatives	Cash flow hedges
IRS	420	-	PLN 255,000	420	-	-	-	-	Derivatives	Cash flow hedges
FORWARD	-	-	-	4,477	-	-	-	-	Derivatives	Hedge of investments in net assets
	420	**3,924**		**8,821**	**-**	**3,870**		**3,870**		

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

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

Disclosure of the hedged item

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

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

Other derivative instruments not designated for hedge accounting

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

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

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

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

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

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

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

26. Employee benefit obligations and provisions

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Salaries and wages payable	17,110	17,053
Liabilities to the Social Security Institution	11,866	11,540
Provisions for retirement severance payments	10,196	6,554
Accrued holiday entitlements	7,719	5,684
Personal income tax	2,350	3,551
Special accounts	189	46
Accrued severance payments	109	-
Provisions for salaries and wages (bonuses)	-	250
	49,539	44,678

Changes in accrued employee benefits

Change in accrued holidays	
Carrying amount as at Jan 1 2018	6,331
Increase	5,621
Use	(5,678)
Release	(590)
Carrying amount as at Dec 31 2018	5,684
Carrying amount as at Jan 1 2019	5,684
Increase	6,826
Use	(4,791)
Release	-
Carrying amount as at Dec 31 2019	7,719

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

27. Trade and other payables

PLN '000

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Trade payables	45,671	76,095
Other liabilities	16,829	47,542
Deferred income	13,490	16,520
Accrued expenses	10,246	22,861
Tax and duties payable	15,067	13,036
	101,303	176,054

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

28. Provisions

PLN '000	**Other provisions**
Carrying amount as at Jan 1 2018	-
Release	-
Carrying amount as at Dec 31 2018	-
Carrying amount as at Jan 1 2019	-
Provision for possible differences straight-line basis settlement	7,156
Carrying amount as at Dec 31 2019	7,156

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

Wonga is reimbursing early repayment fees charged since 2012, i.e. since the start of its operations. In connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of fee refunds, the Company recognised a provision for the difference between the applied method of reimbursement and the straight-line method. In addition, for on-balance sheet exposures at December 31st 2019 the Group estimated the potential prepayments of these exposures and adjusted interest income in accordance IFRS 9.

29. Management of risk arising from financial instruments

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

- credit risk
- liquidity risk

- market risk.

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

Key policies of risk management

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis to reflect changes in market conditions and in the Group's activities. The Group, through appropriate training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

29.1. Credit risk

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

Loans

Following the acquisition of Wonga.pl Sp. z o.o., most of the borrowers are now Wonga's customers. Wonga products are offered to individuals of good credit standing, with access to online banking. The KRUK Group continues to offer loans to persons who have repaid or are regularly repaying their liabilities under the settlement agreement or the Novum loan. The Novum offering is primarily addressed to clients who have already used an instalment product at the KRUK Group. The Group has the experience and analytical tools necessary to estimate credit risk for loans offered both to new clients and to clients previously involved with the KRUK Group. Loans to borrowers who were not previously clients of the KRUK Group currently represents a significant majority of the KRUK Group's consumer loan portfolio.

For each loan, the Group assesses the client's creditworthiness, which is then reflected in the offer addressed to the client.

As the loans are measured at amortised cost, the credit risk related to the loans is reflected in their valuations at the end of each reporting period. As at each valuation date, the Group estimates credit risk based on past inflows from loans. The credit risk assessment also takes into account the period of delinquency of the loans being valued.

The Group mitigates the risk by performing a meticulous verification of clients before a loan is advanced, taking into account the likelihood of recovery of invested capital from the amounts disbursed to clients and the estimated costs of the sale and service process. The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:

- Assessment of a client's creditworthiness prior to advancing a loan and other terms of cooperation;
- Regular monitoring of timely payment of debt;

- Monitoring of risk indicators;
- Maintaining a diversified client base.

The customer's creditworthiness assessment includes:

- Verification of the client with a credit reference agency;
- Verification of loan documents;
- Verification of the employment status;
- Verification of the customer's contact phone (for sales over the phone).

As part of the risk management policy, risk identification, measurement and management methods have been implemented to optimise the level of risk and ultimately to verify profitability. These methods are designed to assist in making rational business decisions based on the principle of balancing risk and profitability by limiting losses resulting from the materialisation of an unplanned adverse scenario or situation and maximising income earned in the case of materialisation of an unplanned favourable scenario or situation.

The Group carries out a thorough analysis and estimate of the risk attached to the loans it grants using advanced economic and statistical tools and relying on its long-standing experience in this respect.

As at the date of these financial statements, the KRUK Group holds no single loan to third parties where default on the loan could have a material adverse effect on its liquidity.

Trade and other receivables

The Management Board has established a credit policy whereby each creditworthiness of each trading partner is evaluated before any payment and other contract terms are offered. The evaluation includes external ratings of the trading partner, when available, and in some cases bank references. Each trading partner is assigned a transaction limit which represents the maximum transaction amount for which no approval from the Management Board is required.
The Group regularly monitors whether payments are made when due, and if any delays are found, the following actions are taken:

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

Over 60% of trading partners have conducted business with the Group for at least three years. In only few cases losses were incurred by the Group as a result of non-payment. Trade and other receivables mainly comprise of fees receivable in respect of debt collected for external trading partners.

The Group's exposure to credit risk mainly results from individual characteristics of each trading partner. The Group's largest trading partner generates 2% (2018: 3%) the Group's revenue. Receivables from the Group's largest trading partner represented 4.2% of total gross trade receivables as at December 31st 2019 (December 31st 2018: 0.8%). Therefore, there is no significant concentration of credit risk at the Group.

The Group 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.

Purchased debt portfolios

Purchased debt portfolios comprise of overdue debts which prior to the purchase by the Group were often subject to collection by the seller of the portfolio or by a third party acting on the seller's behalf. Credit risk related to purchased debt portfolios is relatively high, but the Group has the experience and analytical tools necessary to estimate such risk.

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

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

As at each valuation date, the Group estimates credit risk based on recoveries 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).
- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's form of incorporation
  - debtor's death or bankruptcy
  - debtor's employment.
- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforcement order
  - court collection
  - bailiff collection.

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

The Group 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 Group in most of such auctions do not differ significantly from prices offered by the Group'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 is derived from a database containing information on portfolios previously purchased and collected by the Group.

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 trading 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 Group diversifies the risk by purchasing various types of debt, with varying degrees of difficulty and delinquency periods.

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

- assessment of a trading partner's and debtor's creditworthiness prior to proposing
- payment dates and
- other terms of cooperation;
- regular monitoring of timely payment of debt;
- maintaining a diversified client base.

The Group 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 KRUK Group holds no single debt whose non-payment could have a material adverse effect on its liquidity, but no assurance can be given that such a situation will not occur in the future.

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.

Exposure to credit risk

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

PLN '000	***Note***	**Dec 31 2019**	**Dec 31 2018**
Investments in debt portfolios	*16*	4,196,821	4,077,718
Loans	*16*	214,617	44,064
Trade and other receivables	*19*	55,840	51,231
		4,467,278	4,173,013

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

PLN '000	**Dec 31 2019**	**Dec 31 2018**
Poland	2,117,848	1,906,078
Romania	1,009,917	945,558
Czech Republic	65,175	119,729
Italy	820,505	751,667
Other foreign markets	453,832	449,981
	4,467,278	4,173,013

Impairment losses

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

	IFRS 9 classification	**Carrying amount as at Dec 31 2019**	**Carrying amount as at Dec 31 2018**
Trade and other receivables			
	Basket 1	55,808	52,727
	Basket 2	32	109
	Basket 3	-	-
		55,840	52,836

Impairment losses			
	Basket 1	1,643	1,496
	Basket 2	32	109
	Basket 3	-	-
		1,675	1,605
Net carrying amount			
		54,165	51,231

Changes of impairment losses on receivables are presented below:

PLN '000	**Jan 1-Dec 31 2019**			**Jan 1-Dec 31 2018**		
	Basket 1	**Basket 2**	**Basket 3**	**Basket 1**	**Basket 2**	**Basket 3**
Loss allowance as at Jan 1	1,496	109	-	-	709	-
Loss allowance recognised in the period	147	-	-	1,496	-	-
Reversal of loss allowance	-	(77)	-	-	(600)	-
Use of loss allowance	-	-	-	-	-	-
Loss allowance as at Dec 31	**1,643**	**32**	**-**	**1,496**	**109**	**-**

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

	IFRS 9 classification	**Carrying amount as at Dec 31 2019**	**Carrying amount as at Dec 31 2018**
Investments (loans)			
	Basket 1	186,183	-
	Basket 2	34,789	38,577
	Basket 3	52,556	19,845
	POCI loans	2,408	-
		275,937	58,422
Loss allowance for expected credit losses			
	Basket 1	21,298	-
	Basket 2	6,730	3,480
	Basket 3	33,293	10,878
	POCI loans	-	-
		61,320	14,358
Net carrying amount			
		214,617	44,064

Below are presented changes in gross carrying amount of loans:

	Jan 1-Dec 31 2019				-		
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**	**Basket 1**	**Basket 2**	**Basket 3**
Gross carrying amount as at Jan 1	-	38,577	19,845	-	-	19,801	17,473
Acquisition	-	-	-	5,046	-	-	-
Disbursements/repayments	233,055	(1,678)	(16,270)	(2,638)	-	18,776	2,372
Transfer from basket 1 to basket 2	(31,349)	31,349	-	-	-	-	-
Transfer from basket 1 to basket 3	(15,523)	-	15,523	-	-	-	-
Transfer from basket 2 to basket 3	-	(33,458)	33,458	-	-	-	-
Gross carrying amount as at Dec 31	**186,183**	**34,789**	**52,556**	**2,408**	**-**	**38,577**	**19,845**

Below are presented changes in impairment losses on loans.

	Jan 1-Dec 31 2019			Jan 1-Dec 31 2018		
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**Basket 1**	**Basket 2**	**Basket 3**
Loss allowance as at Jan 1	-	3,480	10,878	-	2,926	9,476
Impairment loss recognised in the reporting period	33,556	14,229	-	-	557	1,402
Transfer from basket 1 to basket 2	(4,967)	4,967	-	-	-	-
Transfer from basket 1 to basket 3	(7,291)	-	7,291	-	-	-
Transfer from basket 2 to basket 3		(20,893)	20,893	-	-	-
Reversal of allowance for expected credit losses	-	-	(5,769)	-	(3)	-
Use of loss allowance	-	-	-	-	-	-
Loss allowance as at Dec 31	**21,298**	**1,784**	**33,293**	**-**	**3,480**	**10,878**

As at December 31st 2019, the gross value of consumer loans was PLN 275,937 thousand (December 31st 2018: PLN 58,422 thousand). The Group recognised an impairment allowance for expected credit losses on loans of PLN 61,320 thousand as at December 31st 2019 (2018: PLN 14,358 thousand). The amount of the impairment loss is determined for individual expected loss recognition buckets, based on estimates that reflect the risk of incurring the expected loss, made taking into account the stage of delinquency (note 3.4.1). The amount of impairment loss covers 22.2% of the gross carrying amount of loans. The total amount of undiscounted expected credit losses on impaired financial assets due to credit risk was PLN 4,946 thousand in 2019.

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

29.2. Liquidity risk

Liquidity risk is the risk of the Group's failure to pay its liabilities when due.
Liquidity risk management aims to ensure that the Group has sufficient liquidity to pay its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.
The key objectives of liquidity management include:

- to protect the KRUK Group against the loss of ability to pay its liabilities,
- to secure funds to finance the Group's day-to-day operations and growth,
- to effectively manage the available financing sources.

The Group has a liquidity management policy in place, which includes, among other things, rules for contracting debt finance, preparing analyses and projections of the Group's liquidity, and monitoring the performance of obligations under credit facility agreements.
The Group's liquidity position is monitored on a regular basis by analysing sensitivity to changes in the projected level of recoveries from debt portfolios.
In accordance with the liquidity management policy adopted by the Group, the following conditions must be met by a Group entity before new debt can be incurred:

- the debt can be repaid from the Group's own assets,
- the debt is incurred taking into account the possibility of transferring the funds between companies, and the time and cost of such transfer,
- incurring the debt will not result in exceeding the financial covenants stipulated in facility agreements and terms and conditions of bonds.

Exposure to liquidity risk

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2019
PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	4,196,821	7,563,217	822,785	839,968	1,585,210	2,922,388	1,392,865
Loans	214,617	295,526	145,903	63,957	51,102	27,336	7,228
Secured borrowings	(1,280,242)	(1,305,176)	(26,634)	(53,769)	(40,814)	(1,183,959)	-
Unsecured bonds in issue	(1,361,176)	(1,536,673)	(49,368)	(107,724)	(590,729)	(586,767)	(202,085)
Lease liabilities	(64,309)	(66,761)	(12,100)	(12,594)	(18,930)	(19,429)	(3,707)
Trade and other payables	(101,303)	(101,303)	(101,303)	-	-	-	-
	1,604,408	4,848,830	779,283	729,837	985,839	1,159,570	1,194,301

As at Dec 31 2018
PLN '000

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	4,077,718	7,239,218	794,678	816,038	1,502,130	2,869,864	1,256,508
Loans	44,064	51,109	18,812	15,235	16,138	924	-
Secured borrowings	(1,131,016)	(1,549,700)	(36,374)	(39,751)	(380,668)	(235,595)	(857,312)
Unsecured bonds in issue	(1,359,872)	(1,465,773)	(82,630)	(121,273)	(142,325)	(1,119,545)	-
Lease liabilities	(9,155)	(9,368)	(3,256)	(2,562)	(2,249)	(1,302)	-
Trade and other payables	(176,054)	(176,054)	(176,054)	-	-	-	-
	1,445,685	4,089,432	515,177	667,688	993,026	1,514,346	399,196

Contractual cash flows were determined based on interest rates effective as at December 31st 2018 and December 31st 2019, respectively.
The Group does not expect the projected cash flows discussed in the maturity analysis to occur significantly earlier than assumed or in amounts materially different from those presented.
As at December 31st 2019, the undrawn revolving credit facility limit available to the Group was PLN 556 254 thousand (2018: PLN 832,730 thousand). The limit is available until December 20th 2023.

29.3. Market risk

Market risk is related to changes in such market factors as foreign exchange rates, interest rates or stock prices, which affect the Group's performance or the value of financial instruments it holds. The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

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

- the Group's objectives in terms of interest rate risk;
- interest rate risk monitoring methods;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding permitted exposure to interest rate risk;
- interest rate risk management rules of the KRUK Group;

The currency risk management policy outlines:

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

As at December 31st 2019, financial assets denominated in foreign currencies accounted for 52% of total assets, while liabilities denominated in foreign currencies represented 22% of total equity and liabilities (December 31st 2018: 55% and 12%, respectively).

The Group uses financial instruments to hedge its interest rate risk and currency risk (see note 3.4.3).

Exposure to currency risk and sensitivity analysis

Below is presented the Group's exposure to currency risk attributable to financial instruments denominated in foreign currencies, calculated based on the exchange rates effective at the end of the reporting period:

PLN '000	Dec 31 2019						Dec 31 2018					Dec 31 2019					Dec 31 2018				
	Exposure to currency risk											Analysis of sensitivity of exposure to currency risk to +10% increase in exchange rates									
	PLN	EUR	USD	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL	PLN	EUR	RON	CZK	TOTAL
Receivables	9	731		-	-	**740**	18	-	5,132	142	**5,292**	1	73	-	-	**74**	2	-	513	14	**529**
Financial assets	-	49,745		771,219	38,623	**859,587**	-	283	662,717	18,513	**681,513**	-	4,974	77,122	3,862	**85,958**	-	28	66,272	1,851	**68,151**
Cash	234	12,704		18,605	742	**32,285**	362	5,519	17,390	10,827	**34,098**	23	1,270	1,861	74	**3,228**	36	552	1,739	1,083	**3,410**
Borrowings, debt securities and leases	-	(284,621)		-	-	**(284,621)**	-	(424,303)	-	-	**(424,303)**	-	(28,462)	-	-	**(28,462)**	-	(42,430)	-	-	**(42,430)**
Trade and other payables	227	799		(4,323)	(92)	**(3,389)**	(23)	(7,513)	(9,277)	(92)	**(16,905)**	23	80	(432)	(9)	**(338)**	(2)	(751)	(928)	(9)	**(1,690)**
Exposure to currency risk	470	(220,643)		785,502	39,273	**604,602**	357	(426,014)	675,962	29,390	**279,695**	-	-	-	-	**-**	-	-	-	-	-
Effect on statement of profit or loss	-	-		-	-	**-**	-	-	-	-	**-**	47	(22,065)	78,551	3,927	**60,460**	36	(42,601)	67,596	2,939	**27,970**
Receivables	-	22,010		18,178	11	**40,199**	-	18,242	12,242	3	**30,487**	-	2,201	1,818	1	**4,020**	-	1,824	1,224	-	**3,047**
Financial assets	-	1,197,592		303,650	34,698	**1,535,941**	-	1,201,952	278,386	80,895	**1,561,233**	-	119,759	30,365	3,470	**153,594**	-	120,195	27,839	8,090	**156,124**
Cash	-	56,002		12,839	4,507	**73,349**	-	54,039	33,778	4,136	**91,953**	-	5,600	1,284	451	**7,335**	-	5,404	3,378	414	**9,195**
Borrowings, debt securities and leases	-	(675,684)		(28,752)	(2,442)	**(706,878)**	-	(530,645)	-	-	**(530,645)**	-	(67,568)	(2,875)	(244)	**(70,687)**	-	(53,065)	-	-	**(53,065)**
Trade and other payables	-	(41,852)		(13,202)	(3,929)	**(58,982)**	-	(47,935)	(7,982)	(1,079)	**(56,996)**	-	(4,185)	(1,320)	(393)	**(5,898)**	-	(4,794)	(798)	(108)	**(5,700)**

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

Exposure to currency risk	-	558,069	292,714	32,845	**883,629**	-	695,653	316,424	83,955	**1,096,032**	-	-	-	-	**-**	-	-	-	-	**-**
Effect on other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	55,807	29,272	3,285	**88,364**	-	69,564	31,643	8,396	**109,601**
Exposure to currency risk	470	337,427	1,078,216	72,118	**1,488,230**	357	269,639	992,386	113,345	**1,375,727**	47	33,743	107,822	7,212	148,824	36	26,964	99,239	11,335	**137,574**
Risk mitigation effect		(190,000)			**(190,000)**	-	(190,000)	-	-	**(190,000)**	-	(19,000)	-	-	(19,000)	-	(19,000)	-	-	**(19,000)**
Exposure to currency risk after hedging	470	147,427	1,078,216	72,118	**1,298,230**	357	79,639	992,386	113,345	**1,185,727**	47	14,743	107,822	7,212	113,233	36	7,964	99,239	11,335	**113,233**

As at December 31st 2019, a 10% depreciation of the Polish currency against the euro would result in a PLN 42,601 thousand decrease in profit and a PLN 26,964 thousand increase in equity. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

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 2019	**Jan 1-Dec 31 2018**	**Dec 31 2019**	**Dec 31 2018**
EUR 1	4.3018	4.2669	4.2585	4.3000
USD 1	3.8440	3.6227	3.7977	3.7597
RON 1	0.9053	0.9165	0.8901	0.9229
CZK 1	0.1676	0.1663	0.1676	0.1673

Exposure to interest rate risk

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

PLN '000	**Carrying amount**	
	Dec 31 2019	**Dec 31 2018**
Fixed-rate financial instruments		
Financial assets	4,467,278	4,173,013
Financial liabilities	(303,398)	(439,402)
	4,163,880	3,733,611
Risk mitigation effect	(530,000)	(200,000)
	3,633,880	3,533,611
Variable-rate financial instruments		
Financial assets	-	-
Financial liabilities	(2,492,027)	(2,236,695)
	(2,492,027)	(2,236,695)
Risk mitigation effect	530,000	200,000
	(1,962,027)	(2,036,695)

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group does not hold any fixed rate financial instruments measured at fair value through profit or loss, nor does it execute transactions with derivatives (IRSs) serving as security for fair value. Therefore, a change of an interest rate would have no material effect on current period's profit or loss.

Sensitivity analysis of cash flows from variable-rate financial instruments

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

PLN '000	Profit or loss for the current period		Equity excluding profit or loss for current period	
	up by 100 bps	down by 100 bps	up by 100 bps	down by 100 bps
Dec 31 2019				
Variable rate financial assets	-	-	-	-
Variable rate financial liabilities	(24,920)	24,920	-	-
Dec 31 2018				
Variable rate financial assets	-	-		
Variable rate financial liabilities	(22,367)	22,367	-	-

Fair values

Comparison of fair values and carrying amounts

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

PLN '000	Dec 31 2019		Dec 31 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value				
Derivatives	295	295	(2,420)	(2,420)
	295	295	(2,420)	(2,420)
Financial assets and liabilities not measured at fair value				
Investments in debt portfolios	4,196,821	3,820,966	4,077,718	3,692,947
Loans and receivables	270,457	275,389	95,295	95,295
Secured bank borrowings	(1,280,242)	(1,280,242)	(1,131,016)	(1,131,016)
Unsecured bonds in issue	(1,361,176)	(1,372,989)	(1,359,872)	(1,369,712)
Lease liabilities	(64,309)	(64,309)	(9,155)	(9,155)
Trade and other payables	(101,303)	(101,303)	(176,054)	(176,054)
	1,660,248	1,277,512	1,496,915	1,102,305

For information on fair value measurement, see note 3.4.

Interest rates used for fair value estimation

	Dec 31 2019	Dec 31 2018
Financial assets measured at fair value and at amortised cost	8.10% - 113.17%	8.10% - 420.22%
Borrowings	1.84% - 4.89%	1.84% - 4.89%
Unsecured bonds in issue	4.22% - 5.22%	4.22% - 5.22%
Lease liabilities	1.09% - 3.9%	1.09% - 3.9%

Hierarchy of financial instruments at fair value

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

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

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

PLN '000	Level 3	
	Carrying amount	**Fair value**
As at Dec 31 2018		
Investments in debt portfolios	4,077,718	3,698,884
As at Dec 31 2019		
Investments in debt portfolios	4,196,821	3,820,966

PLN '000	Level 2	
	Carrying amount	**Fair value**
As at Dec 31 2018		
Hedge derivatives	(2,420)	(2,420)
As at Dec 31 2019		
Hedge derivatives	295	295

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

The Group determines fair value including input data for loans granted at Level 3. For bank loans, issued bonds, leasing liabilities and trade payables, the Group determines fair value including input data at Level 2.

29.4. Capital management

The Management Board monitors the return on equity, defined by the Group as the ratio of net profit to equity, excluding non-controlling interests.

The Management Board seeks to strike a balance between the rate of return achievable with higher debt levels and the risk exposure. In the reporting period from January 1st to December 31st 2019, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 16.43% (2018: 24.07%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and leases to total equity, was 1.38 as at December 31st 2019 (December 31st 2018: 1.43).

In the reporting period from January 1st to December 31st 2019, there were no changes in the Group's approach to capital management.

30. Related-party transactions

Remuneration of the management personnel - 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 2019**	**Jan 1-Dec 31 2018**
Base pay/ managerial contract (gross)	6,425	6,599
Provision for employee bonuses for current year	-	250
Share based payments	9,658	8,118
	16,083	14,967

Other transactions with management personnel

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

31. Share-based payments

Equity-settled cost of stock option plan for the Management Board of the Parent and employees.

PLN '000

	Value of benefits granted
Period ending	
Dec 31 2003	226
Dec 31 2004	789
Dec 31 2005	354
Dec 31 2006	172
Dec 31 2007	587
Dec 31 2008	91
Dec 31 2010	257
Dec 31 2011	889
Dec 31 2012	2,346
Dec 31 2013	2,578
Dec 31 2014	7,335
Dec 31 2015	13,332
Dec 31 2016	7,702
Dec 31 2017	10,147
Dec 31 2018	8,118
Dec 31 2019	9,658
Total	64,581

The management stock option plans are described in note 22.

32. Auditor's fees

Auditor's fees

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

prepared in accordance with the IFRS endorsed by the EU (PLN '000)

33. Contingent liabilities

Security created over the KRUK Group's assets

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

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Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank S.A.	PLN 162.40m	By October 31st 2021	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of June 21st 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Guarantee issued by KRUK S.A. for KRUK România s.r.l.'s liabilities under lease contracts	Piraeus Leasing Romania IFN S.A.	EUR 0.5m	Until all obligations under the lease contracts executed by KRUK România s.r.l. with Piraeus Leasing Romania IFN S.A. are fulfilled	KRUK România s.r.l.'s failure to repay its liabilities under the lease contracts secured with the Guarantee
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 0,29 million, and PLN 192,958.93	By December 30th 2020	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee
Surety for Prokura NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility granted to Prokura NS FIZ	ING Bank Śląski S.A.	PLN 240m	By December 20th 2026	Prokura NS FIZ's failure to pay amounts owed to the bank under the credit facility agreement
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

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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.

On October 12th 2017, KRUK S.A. and Lehman Brothers Holding concluded an agreement to purchase 100% of the BISON NS FIZ (closed-end investment fund) certificates. If from the beginning of the transition period to the expiry of five years from the time of signing the agreement the amounts recovered from the portfolios held by BISON NS FIZ exceed PLN 60,000 thousand, KRUK S.A. will be obliged to pay compensation to the original owner of the investment certificates. The compensation will be computed as 40% of the amounts recovered in excess of PLN 60,000 thousand.

34. Events subsequent to the reporting date

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

Piotr Krupa
President of the Management Board

Agnieszka Kułton
Member of the Management Board

Urszula Okarma
Member of the Management Board

Iwona Słomska
Member of the Management Board

Michał Zasępa
Member of the Management Board

Monika Grudzień-Wiśniewska
Person responsible for maintaining the accounting records

Hanna Stempień
Person preparing the financial statements

Wrocław, March 4th 2020.