25 years

OF EUROPEAN
KNOWLEDGE
& EXPERIENCE

Consolidated financial statements for the year ended 31 December 2023

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

KRUK Group

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Consolidated statement of profit or loss

PLN '000	***Note***	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Interest income on debt portfolios and loans measured at amortised cost	*5*	1,723,731	1,390,066
Interest income on loans measured at fair value	*5*	4,529	10,129
Revenue from sale of debts and loans	*5*	7,305	13,662
Other income/(expenses) from purchased debt portfolios	*5*	(19,666)	(16,530)
Revenue from other services	*5*	59,221	74,372
Other income	*5*	21,614	6,556
Change in investments measured at fair value	*5*	1	3,400
Gain/(loss) on expected credit losses	*5*	795,845	664,135
Operating income including gain/(loss) on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios		2,592,580	2,145,790
Employee benefits expense	*9*	(529,291)	(475,486)
Depreciation and amortisation	*14.15*	(58,297)	(51,188)
Court fees	*7*	(353,253)	(289,716)
Services	*6*	(245,290)	(205,059)
Other expenses	*8*	(79,291)	(81,500)
		(1,265,422)	(1,102,949)
Operating profit		1,327,158	1,042,841
Finance income	*10*	10,231	7,319
Finance costs	*10*	(299,915)	(186,450)
including interest expense on lease liabilities		*(3,293)*	*(2,878)*
Net finance costs		(289,684)	(179,131)
Profit before tax		1,037,474	863,710
Income tax	*12*	(53,273)	(58,692)
Net profit for period		984,201	805,018
Net profit attributable to:			
Owners of the Parent		983,934	804,982
Non-controlling interests		267	36
Net profit for period		984,201	805,018
Earnings per share			
Basic (PLN)	*24*	50.93	42.07
Diluted (PLN)	*24*	48.37	40.71

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

PLN '000

	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Net profit for period		984,201	805,018
Other comprehensive income, gross			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	*11*	(196,297)	24,741
Instruments hedging cash flows and net investment in a foreign operation	*26*	28,889	18,036
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plans		(824)	4,155
Other comprehensive income for period, gross		(168,232)	46,932
Income tax on instruments hedging cash flows and net investment in a foreign operation	*26*	(10,473)	(3,294)
Other comprehensive income for period, net		(178,705)	43,638
Total comprehensive income for period		805,496	848,656
Total comprehensive income attributable to:			
Owners of the Parent		805,207	848,619
Non-controlling interests		289	37
Total comprehensive income for period		805,496	848,656

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

PLN '000

	Note	31 Dec 2023	31 Dec 2022
Assets			
Cash and cash equivalents	*21*	388,461	202,160
Hedging instruments	*26*	98,428	46,091
Trade receivables	*20*	24,440	13,033
Other receivables	*20*	58,970	41,156
Income tax receivable		22,398	-
Inventories	*18*	15,038	16,369
Investments	*17*	9,091,893	7,137,530
Deferred tax asset	*19*	45,958	44,921
Property, plant and equipment	*14*	91,777	71,422
Goodwill	*16*	8,084	17,026
Other intangible assets	*15*	67,206	70,833
Other assets	*22*	15,852	20,541
Total assets		9,928,505	7,681,082
Equity and liabilities			
Liabilities			
Trade and other payables	*28*	220,448	158,271
Hedging instruments	*26*	32,614	9,824
Employee benefit obligations	*27*	76,469	59,639
Income tax payable		11,785	16,406
Borrowings, debt securities and leases	*25*	5,531,167	3,945,794
Provisions	*29*	62,905	36,431
Deferred tax liability	*19*	202,307	201,420
Total liabilities		6,137,695	4,427,785
Equity			
Share capital	*23*	19,319	19,319
Share premium		358,506	358,506
Hedge reserve	*26*	51,043	32,627
Measurement reserve (defined benefit plans)		3,331	4,155
Exchange differences on translating foreign operations		(95,871)	100,448
Other capital reserves		171,847	149,896
Retained earnings		3,283,218	2,589,066
Equity attributable to owners of the Parent		3,791,393	3,254,017
Non-controlling interests		(583)	(720)
Total equity		3,790,810	3,253,297
Total equity and liabilities		9,928,505	7,681,082

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

PLN '000

	Note	Share capital	Share premium	Hedge reserve	Measurement reserve (defined benefit plans)	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Equity as at 1 Jan 2022		**19,013**	**333,264**	**17,885**	**-**	**75,708**	**122,202**	**2,032,745**	**2,600,817**	**(590)**	**2,600,227**
Comprehensive income for period											
Net profit for period		-	-	-	-	-	-	804,982	804,982	36	805,018
Other comprehensive income											
- Exchange differences on translating foreign operations		-	-	-	-	24,740	-	-	24,740	1	24,741
- Measurement of hedging instruments	*26*	-	-	14,742	-	-	-	-	14,742	-	14,742
- Measurement of defined benefit plans		-	-	-	4,155	-	-	-	4,155	-	4,155
Total other comprehensive income		-	-	14,742	4,155	24,740	-	-	43,637	1	43,638
Total comprehensive income for period		-	-	14,742	4,155	24,740	-	804,982	848,619	37	848,656
Contributions from and distributions to owners											
- Payment of dividends	*24*	-	-	-	-	-	-	(248,661)	(248,661)	(167)	(248,828)
- Issue of shares	*23*	306	25,242	-	-	-	-	-	25,548	-	25,548
- Share-based payments	*33*	-	-	-	-	-	27,694	-	27,694	-	27,694
Total contributions from and distributions to owners		306	25,242	-	-	-	27,694	(248,661)	(195,419)	(167)	(195,586)
Total equity as at 31 Dec 2022		**19,319**	**358,506**	**32,627**	**4,155**	**100,448**	**149,896**	**2,589,066**	**3,254,017**	**(720)**	**3,253,297**
Equity as at 1 Jan 2023		**19,319**	**358,506**	**32,627**	**4,155**	**100,448**	**149,896**	**2,589,066**	**3,254,017**	**(720)**	**3,253,297**
Comprehensive income for period											
Net profit for period		-	-	-	-	-	-	983,934	983,934	267	984,201
Other comprehensive income											
- Exchange differences on translating foreign operations		-	-	-	-	(196,319)	-	-	(196,319)	22	(196,297)
- Measurement of hedging instruments	*26*	-	-	18,416	-	-	-	-	18,416	-	18,416
- Measurement of defined benefit plans		-	-	-	(824)	-	-	-	(824)	-	(824)
Total other comprehensive income		-	-	18,416	(824)	(196,319)	-	-	(178,727)	22	(178,705)
Total comprehensive income for period		-	-	18,416	(824)	(196,319)	-	983,934	805,207	289	805,496
Contributions from and distributions to owners											
- Payment of dividends	*24*	-	-	-	-	-	-	(289,782)	(289,782)	(152)	(289,934)
- Share-based payments	*33*	-	-	-	-	-	21,951	-	21,951	-	21,951
Total contributions from and distributions to owners		-	-	-	-	-	21,951	(289,782)	(267,831)	(152)	(267,983)
Total equity as at 31 Dec 2023		**19,319**	**358,506**	**51,043**	**3,331**	**(95,871)**	**171,847**	**3,283,218**	**3,791,393**	**(583)**	**3,790,810**

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

PLN '000	*Note*	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Cash flows from operating activities			
Net profit for period		984,201	805,018
Adjustments			
Depreciation of property, plant and equipment	*14*	35,698	33,978
Amortisation of intangible assets	*15*	22,599	17,210
Impairment losses on goodwill	*16*	8,003	7,262
Net finance costs		289,684	179,131
(Gain)/loss on sale of property, plant and equipment		(1,184)	(1,617)
(Gain)/loss on sale of subsidiaries	*5*	(15,103)	-
Equity-settled share-based payments	*33*	21,951	27,694
Interest income	*5*	(1,728,260)	(1,400,195)
Income tax	*12*	53,273	58,692
Change in loans	*17*	(48,685)	(53,107)
Change in debt portfolios purchased	*17*	(2,126,786)	(1,608,363)
Change in inventories	*18*	1,331	3,926
Change in trade and other receivables	*20*	(29,221)	3,763
Change in other assets	*22*	4,689	(3,990)
Change in trade and other payables	*28*	62,177	(4,715)
Change in employee benefit obligations	*27*	16,830	10,978
Change in provisions	*29*	(2,080)	(6,629)
Minority interest share of profit		(267)	(36)
Interest received		1,728,260	1,400,195
Income tax paid		(62,361)	(36,967)
Net cash from operating activities		(785,251)	(567,772)
Cash flows from investing activities			
Interest received	*10*	1,489	711
Sale of intangible assets and property, plant and equipment		1,029	1,274
Proceeds from sale of subsidiaries	*16*	16,777	-
Purchase of intangible assets and property, plant and equipment	*14.15*	(42,623)	(34,256)
Net cash from investing activities		(23,328)	(32,271)
Cash flows from financing activities			
Proceeds from issue of shares	*23*	-	25,548
Proceeds from issue of debt securities	*25*	1,560,639	545,000
Increase in borrowings	*25*	2,578,622	2,381,102
Repayment of borrowings	*25*	(2,455,207)	(1,378,216)
Payments under finance lease contracts	*25*	(37,729)	(33,795)
Payment of dividends	*24*	(289,934)	(248,828)
Redemption of debt securities	*25*	(65,000)	(467,926)
Interest received and paid on hedging instruments		74,564	24,341
Interest paid		(371,075)	(244,187)
Net cash from financing activities		994,880	603,039
Total net cash flows		186,301	2,996
Cash and cash equivalents at beginning of period		202,160	199,164
Cash and cash equivalents at end of period	*21*	388,461	202,160
of which:			
- effect of exchange rate fluctuations on cash held		*(4,532)*	*130*
*- restricted cash**		-	*5,691*

**Proceeds from the issue of Series AN2 bonds deposited* in *a technical account held with the broker, credited in the Group's bank account after the reporting date, on 10 January 2023.*

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

Accounting policies and other notes

Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

1. Parent

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

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

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: 7 September 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 31 December 2023 include the financial statements of the Parent, its subsidiaries, and entities controlled through personal links (jointly the "Group" or the "KRUK Group").

As at 31 December 2023, the Group comprised KRUK S.A. of Wrocław, 22 subsidiaries, and 2 entities controlled through personal links:

Subsidiary	Registered office	Principal business activity
DEBT MANAGEMENT		
AgeCredit S.r.l.	Cesena	Credit management in Italy
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Credit management services and collection of debt purchased by the KRUK Group, investing in debt portfolios
KRUK Deutschland GmbH	Berlin	Collection of debt purchased by the KRUK Group, investing in debt portfolios
KRUK Espana S.L.U.	Madrid	Credit management services and collection of debt purchased by the KRUK Group in Spain and other European countries, investing in debt portfolios
KRUK Italia S.r.l.	Milan	Credit management services and collection of debt purchased by the KRUK Group in Italy and other European countries
KRUK Romania S.r.l.	Bucharest	Credit management services and collection of debt purchased by the KRUK Group, investing in debt portfolios
INVESTMENTS IN DEBT PORTFOLIOS		
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NFW FIZ, Presco NFW FIZ and Bison NFW FIZ funds

Subsidiary	Registered office	Principal business activity
Bison NFW FIZ (formerly Bison NS FIZ)	Wrocław	Non-standardised Debt Closed-End Investment Fund
Presco NFW FIZ (formerly P.R.E.S.C.O. Investment I NS FIZ)	Wrocław	Non-standardised Debt Closed-End Investment Fund
Prokura NFW FIZ (formerly Prokura NS FIZ)	Wrocław	Non-standardised Debt Closed-End Investment Fund
InvestCapital Ltd.	Malta	Investing in debt or debt-backed assets
ItaCapital S.r.l.	Milan	Investing in debt portfolios
KRUK INVESTIMENTI S.R.L.	Milan	Investing in debt portfolios
Secapital S.a r.l.	Luxembourg	Investing in debt or debt-backed assets
Presco Investments S.a r.l.	Luxembourg	Investing in debt or debt-backed assets
CONSUMER LENDING		
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
Wonga.pl sp. z o.o.	Warsaw	Granting consumer loans
RoCapital IFN S.A.	Bucharest	Granting consumer loans
DEBT MANAGEMENT SUPPORT ACTIVITIES		
Kancelaria Prawna Raven P. Krupa sp.k.	Wrocław	Comprehensive support for legal action and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
Zielony Areał sp. z o.o.	Wrocław	Buying and selling own real estate; services supporting crop production
KRUK TECH s.r.l.	Bucharest	Software development and provision of IT services
KRUK Immobiliare S.a r.l.s	Milan	Buying and selling own real estate

Entity controlled through personal links	Registered office	Principal business activity
Corbul S.r.l	Bucharest	Detective activities
Gantoi, Furculita Si Asociatii S.p.a.r.l.	Bucharest	Law firm

On 3 January 2023, an agreement was signed for sale by the Parent of all shares in ERIF Biuro Informacji Gospodarczej S.A. and ERIF Business Solutions sp. z o.o. The ownership title to the shares was transferred on the date on which the Parent's bank account was credited with the sale price, i.e. on 24 January 2023.

Following the liquidation process launched on 30 December 2022, ProsperoCapital S.à.r.l. of Luxembourg was effectively liquidated on 31 March 2023.

On 17 May 2023, the articles of association of KRUK Immobiliare S.r.l. of Milan were executed, and on 19 May 2023 the company was entered in the commercial register. The principal business activities of KRUK Immobiliare S.r.l. consist in buying and managing of real estate. KRUK holds 100% of shares in the newly incorporated company.

On 20 September 2023, Kruk Italia, a wholly-owned subsidiary of KRUK S.A., sold all shares in Elleffe Capital s.r.l. Following the transaction, Elleffe ceased to be an entity of the KRUK Group.

The Parent operates three local offices in Warsaw, Szczawno-Zdrój and Piła.

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KRUK S.A. is the Parent of the Group. KRUK S.A. has no parent or shareholder that has the ability to influence the Group's financial and operating policies through control, joint control, or the exercise of significant influence. The subsidiaries are listed below.

		Ownership interest and share in total voting rights	
	Country	31 Dec 2023	31 Dec 2022
SeCapital S.a.r.l.[1]	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.[4]	Poland	-	100%
ERIF Biuro Informacji Gospodarczej S.A.[4]	Poland	-	100%
Novum Finance Sp. z o.o.[1]	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 NFW FIZ (formerly Prokura NS FIZ) [1;7]	Poland	100%	100%
InvestCapital Ltd[1]	Malta	100%	100%
RoCapital IFN S.A.[1]	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l.	Italy	100%	100%
ItaCapital S.r.l.	Italy	100%	100%
KRUK España S.r.l	Spain	100%	100%
ProsperoCapital S.a.r.l. (in liquidation)[2]	Luxembourg	-	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
Presco NFW FIZ (formerly P.R.E.S.C.O. Investment I NS FIZ) [1;7]	Poland	100%	100%
Bison NFW FIZ (formerly Bison NS FIZ) [1;7]	Poland	100%	100%
Elleffe Capital S.r.l. [6]	Italy	-	100%
Corbul S.r.l [3]	Romania	n/a	n/a
Gantoi, Furculita Si Asociatii S.p.a.r.l. [3]	Romania	n/a	n/a
AgeCredit S.r.l.	Italy	100%	100%
Wonga.pl Sp. z o.o.	Poland	100%	100%
KRUK Investimenti S.r.l.	Italy	100%	100%
Zielony Areał Sp. z o.o.	Poland	100%	100%
Kruk Tech S.r.l.[1]	Romania	100%	100%
Kruk Immobiliare S.r.l. [5]	Italy	100%	-

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

[2] Entity dissolved through liquidation in the three months ended 31 March 2023.

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

[4] Entity sold outside the Group in the three months ended 31 March 2023.

[5] Entity established in the three months ended 30 June 2023.

[6] Entity sold outside the Group in the three months ended 30 September 2023.

[7] The fund's name was changed as of 29 September 2023.

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 26 March 2024.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns for 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. The going concern assumption was reviewed in light of the current economic and political climate.

2.2. Basis of accounting

These consolidated financial statements have been prepared for the reporting period 1 January 2023 − 31 December 2023. The comparative data is presented as at 31 December 2022 and for the period 1 January 2022 – 31 December 2022.

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

- at amortised cost calculated using the effective interest rate method
  - including allowance for expected credit losses – for credit-impaired assets,
  - for 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 and loans for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding,
- 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. Therefore, mathematical inconsistencies may occur in summations or between notes.

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

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

Item	Amount estimated		Note	Assumptions and estimate calculation
	31 Dec 2023 *(PLN '000)*	31 Dec 2022 *(PLN '000)*		
Investments in debt portfolios	8,673,765	6,768,087	*3.4* *17* *30.1* *30.3*	The value of purchased debt portfolios as at the valuation date is determined using an estimation model relying on expected discounted cash flows. The expected cash flows were estimated with the use of analytical methods (portfolio analysis) or based on a legal and economic analysis of individual claims or indebted persons/entities (case-by-case analysis). The method of estimating cash flows from a debt portfolio is selected based on the available data on the portfolio, debt profiles as well as historical data collected in the course of managing the portfolio. The Kruk Group prepares projections for recoveries from debt portfolios separately for each market. The projections account for historical performance of the process of debt portfolio recovery, legal regulations currently in force and planned, type and nature of debt and security, current collection strategy and macroeconomic considerations, among other factors. Initial projections of expected cash flows that take into account the initial value are the basis for calculating the effective interest rate, equal to the internal rate of return including an element that reflects credit risk, which is used for discounting estimated cash flows, and which remains unchanged throughout the life of a portfolio.
Goodwill	8,084	17,026	*3.7.1* *3.10.2* *16*	Goodwill impairment is estimated based on the expected discounted cash flows to be derived from a cash-generating unit. The discount rate used to discount expected cash flows reflects the current market assessment of the asset risk for the debt collection industry.

Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

Loans measured at amortised cost	412,510	357,003	*3.4* *17* *30.1* *30.3*	Gross loans are calculated based on expected cash flows discounted with the effective interest rate. The expected cash flows are determined for homogeneous groups of loans, based on historical prepayment data. The probability of prepayment varies, among other things, depending on the time elapsed since the grant of loan. The amount of gross loans is reduced by the amount of expected credit losses. It is determined based on, among other things, probability of default (PD), loss given default (LGD), and exposure at default (EAD). As at 31 December 2023, for loans advanced by Wonga.pl measured at amortised cost: − A 10% increase in the expected life of the loans would result in a PLN 647 thousand increase in the gross carrying amount of the loans (31 December 2022: PLN 824 thousand). − A 10% decrease in the expected life of the loans would result in a PLN 1,248 thousand decrease in the gross carrying amount of the loans (31 December 2022: PLN 1,234 thousand). − A parallel shift of the PF curve by 10% would result in a PLN 3,454 thousand increase/decrease in the expected cash flows (31 December 2022: PLN 2,204 thousand). − A 10pp increase/decrease in LGD at the time of transfer to Basket 3 would result in a PLN 3,282 thousand decrease/increase in expected cash flows from loans classified into Basket 1 and Basket 2 (31 December 2022: PLN 2,153 thousand).
Loans at fair value through profit or loss	5,618	12,440	*3.4* *17* *30.1* *30.3*	Loans that do not meet the SPPI test are measured at fair value. The fair value of loans was determined based on Level 3, that is based on the projection of expected cash flows. The main parameter that affects the fair value of loans is the interest rate used to discount expected cash flows to the present value and the amount of expected credit losses on the portfolio. If these parameters changed as at 31 December 2023: − interest rates by +/- 1pp − expected credit losses by +/- 10% the fair value would change by +/- 0.04m and PLN 0.54m, respectively (PLN 0.04m and PLN 0.51m as at 31 December 2022).

<table>
<tr><th rowspan="2">Item</th><th colspan="2">Amount subject to judgement</th><th rowspan="2">Note</th><th rowspan="2">Assumptions underlying judgements</th></tr>
<tr><th>31 Dec 2023 (PLN ’000)</th><th>31 Dec 2022 (PLN ’000)</th></tr>
<tr><td>Deferred tax assets and liabilities</td><td>45,958 (assets)

202,307 (liabilities)</td><td>44,921 (assets)

201,420 (liabilities)</td><td>3.22
19</td><td>The Group exercises control over the timing of temporary differences regarding subsidiaries, and thus recognises deferred tax liabilities. These liabilities are based on estimates of future income tax payments, which are derived from three-year plans.

The Kruk Group assesses the recoverability of deferred tax assets based on its approved financial forecast for the following years.

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

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

Therefore, the amount of deferred tax liability for expected future cash flows from subsidiaries may be subject to material changes in individual reporting periods.</td></tr>
<tr><td>Functional currency at InvestCapital</td><td>-67,772</td><td>102,571</td><td>3.3.1
23</td><td>InvestCapital carries out material transactions in three different currencies: EUR, PLN and RON. Under IAS 21, 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. Given the volume of planned and held investments in debt portfolios, InvestCapital's functional currency is the euro.</td></tr>
</table>

3. Material 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 the consolidated financial statements, save for the presentation changes discussed under '*Enhancing comparability*'.

There were no significant changes in accounting policies in 2023.

The Group applied the following amendments to standards and interpretations approved for use in the European Union as of 1 January 2023:

- IFRS 17 Insurance Contracts, including amendments to IFRS 17 issued in 2020 (Amendments to IFRS 17) and in 2021 (Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information);
- Amendments to IAS 12 introducing the definition of estimates and relating to the International Tax Reform: Pillar Two;
- Amendments to IAS 1 and IFRS Practice statement 2 concerning disclosure of accounting policies;
- Amendments to IAS 8 introducing the definition of accounting estimates.

Save for the amendments to IAS 1 and IFRS Practice statement 2, these amendments had no significant effect on the consolidated financial statements of the Group. The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. Upon reviewing its prior accounting policy disclosures, the Group has narrowed their scope to include only material policies.

Enhancing comparability

To better reflect the relevant economic substance and enhance the usefulness of presented data, the Group has changed the presentation of court fees from 'Other expenses' to a separate line item 'Court fees'.

The data reported in the consolidated financial statements issued for the period 1 January – 31 December 2022 was restated to ensure comparability. The effect of the change on the consolidated statement of profit or loss is presented below.

PLN '000	**1 Jan–31 Dec 2022 Originally reported**	**Change**	**1 Jan–31 Dec 2022 Restated**
Employee benefits expense	(475,486)		(475,486)
Depreciation and amortisation	(51,188)		(51,188)
Court fees		(289,716)	(289,716)
Services	(205,059)		(205,059)
Other expenses	(371,216)	289,716	(81,500)
	(1,102,949)	**-**	**(1,102,949)**

To better reflect the relevant economic substance and enhance the usefulness of presented data, the Group has changed the presentation of cash flows from interest on hedging instruments, which in the previous reporting period were recorded under 'Interest paid' to a separate line item 'Interest received and paid on hedging instruments'.

The data reported in the consolidated financial statements issued for the period 1 January – 31 December 2022 was restated to ensure comparability. The effect of the change on the consolidated statement of cash flows is presented below.

PLN '000	**1 Jan–31 Dec 2022 Originally reported**	**Change**	**1 Jan–31 Dec 2022 Restated**
Cash flows from financing activities			
Proceeds from issue of shares	25,548		25,548
Proceeds from issue of debt securities	545,000		545,000
Increase in borrowings	2,381,102		2,381,102
Repayment of borrowings	(1,378,216)		(1,378,216)
Payments under finance lease contracts	(33,795)		(33,795)
Payment of dividends	(248,828)		(248,828)
Redemption of debt securities	(467,926)		(467,926)
Interest received and paid on hedging instruments	-	26,326	26,326
Interest paid	(219,846)	(26,326)	(246,172)
Net cash from financing activities	**603,039**	**-**	**603,039**

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 entities are fully consolidated, have consistent reporting periods and apply the same accounting policies.

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 bargain purchase.

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

3.2.2. 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 of the respective country 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 (or at fair value) in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost 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.

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. Retained earnings from foreign operations are translated at the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the year in which the profit/(loss) was generated. For information on the rates of exchange applied, see Note 30.3.
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.

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 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).

The SPPI test is performed for each financial asset or group of financial assets held in the ‘hold to collect’ (business model whose objective is to hold financial assets to collect contractual cash flows) and ‘hold to collect and sell’ (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets) business model as at initial recognition of the asset (including for a substantial modification after restatement of the financial asset). If the contractual terms are modified, the estimated credit risks are revised accordingly. Indications of a significant risk increase include feedback from clients reporting possible problems with timely loan repayments and requests for credit holidays.

On initial recognition, the Group measures financial assets at fair value, net of trade and other receivables.

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

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

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

   Investments in debt portfolios, trade and other receivables, 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. Consumer loans in the case of which failure to pass the SPPI test is related to the floating loan interest rate that contains a multiplier (leverage) are measured at fair value through profit or loss.

Financial assets measured at amortised cost

Investments in debt portfolios

Investments in debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under debt assignment agreements. Prices paid by the Group 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 investments in debt portfolios consists in holding and managing the portfolios on a long-term basis in order to generate expected cash flows from the portfolios.

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

Investments in debt portfolios are classified as purchased or originated credit-impaired financial assets (POCI). Investments in debt portfolios are measured at amortised cost, using the credit risk-adjusted effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred which can be directly allocated.

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 directly allocated transaction costs), and remains unchanged throughout the life of a portfolio. An adjustment of the effective discount rate is possible if the purchase price is reduced as a result of returning part of receivables held in a given debt portfolio to the seller due to legal defects.

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

The estimated cash flows are primarily based on:

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

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

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

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

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

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

The debt portfolio purchase date helps to determine the recovery phase of a given debt portfolio at the Group. Portfolio groups are made of portfolios that are at similar recovery phases. The Group 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 at amortised cost

Loans measured at amortised cost are based on the effective interest rate and include allowances for expected credit losses. The effective interest rate is determined on the basis of the originally expected flow resulting directly from the original payment schedule and is recalculated in the event of a change in market rates. Interest income is calculated at the effective interest rate and recognised in the statement of profit or loss under 'Interest income on debt portfolios and loans measured at amortised cost'. Impairment losses on loans include changes related to expected credit losses.

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

Expected credit losses for a loan are determined based on the following parameters: PD (probability of default understood as a state of being in default), PPS (probability of prepayment), LGD parameter (loss given default) and EAD parameter (exposure at default). The Group analyses the impact of macroeconomic factors on projected recoveries; historically, no material correlation between recoveries from loans and the macroeconomic situation has been found.

The PD (probability of default) parameter is determined based on a lifetime PD model that returns the probability of default in a given month. The parameter is set at the level of defined rating grades based on behavioural scoring. The PPS (probability of prepayment) parameter is determined based on a prepayment model that returns the probability of repayment in a given month. The Markov model of the flow of balances was used to determine the LGD (loss given default), taking into account, among other things, the following information:

- indicator of default (determined at default),
- months After Default (MAD),
- payments made by the client,
- sale of debt,
- debt sale price,
- accrued fees and interest.

Based on the indicator of default and MAD, the state of each loan account is determined, while the matrix of balances transition between states, including ending (absorbing) states, determines the present value of expected cash flows and the required level of provisioning. The EAD (exposure at default) parameter is determined based on repayment schedules. The gross carrying amount of the loan portfolio as at the reporting date includes, among other things, the loan principal amount and other contractual charges (interest, commissions, etc.) accrued as at the reporting date, less payments made by the client as at the reporting date.

How expected credit losses are recognised by the KRUK Group depends on a 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 (Note 30.1).

Objective evidence that a financial asset is credit-impaired includes observable data about the following events: a breach of contract, such as an event of default or past-due event. If the contractual terms are modified, the estimated credit risks are revised accordingly. Indications of a significant risk increase include, among other things, feedback from clients reporting possible problems with timely repayments and requests for credit holidays, as well as a significant deterioration of the client's rating, understood as a deterioration by at least two rating grades, since initial recognition.

With reference to the requirements of IFRS 9, the KRUK Group classifies loans into three baskets for which expected losses and interest income are recognised as follows:

• Basket 1 (stage *1)* – includes loans for which no significant increase in credit risk (past-due events) and no impairment have been identified between the date of recognition and the reporting date, days past due are fewer than 30 and no impairment has been identified. The expected losses on such loans are recognised for a time horizon of the next 12 months or earlier if their maturity date is closer. In Basket 1, interest income is recognised on the gross carrying amount.

• Basket 2 (stage *2)* – includes loans for which there has been a significant increase in credit risk between the date of recognition and the reporting date (i.e. the loan is past due or the credit agreement has been terminated by the lender). Loans may be classified into Basket 2 if their repayment is past due by at least 30 days. In addition, Basket 2 may include loans for which a significant increase in risk has been identified based on feedback from clients reporting possible problems with timely loan repayments and requests for credit holidays, as well as a significant deterioration of the client's rating, understood as a deterioration by at least two rating grades, since initial recognition.
For such loans, lifetime expected credit losses are recognised. In Basket 2, interest income is recognised on the gross carrying amount.

• Basket 3 (*stage 3*) – includes loans in the case of which impairment has been identified, including where the loan is past due by over 90 days. This basket also includes loans in restructuring, fraud loans, bankruptcies and loans where the borrower has died. For loans classified into Basket 3, lifetime expected credit losses are recognised. In Basket 1, interest income is recognised on the net carrying amount.

• POCI – purchased or originated credit-impaired financial assets. Interest income on loans classified as POCI are recognised on a net basis. The credit risk-adjusted effective interest rate is determined based on future cash flows adjusted for the effect of credit risk recognised over the entire forecast horizon.

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,
b) it is designated as such upon initial recognition (fair value through profit or loss option),
c) it does not meet the SPPI test as the loan contractual flows include elements other than payment of principal, interest, and time value of money. In the case of consumer loans, the element resulting in failure to pass the SPPI test is related to the floating loan interest rate that contains a multiplier (leverage).

In the case of Wonga loans, their fair value was determined on the Level 3 basis, i.e. based on a forecast of expected cash flows. Loans measured at fair value are loans advanced by the Company from September 2020 to May 2021, whose interest rate includes a multiplier (leverage).

The interest rate used to discount expected future cash flows for loans measured at fair value is based on the following elements: the risk-free rate, the market interest rate (margin) under Group financing, and the premium for non-performing loans (the last two elements being estimated based on the observed prices for terminated loans), as well as an additional margin for a variable prepayment profile (for instance, early repayment vs the agreed schedule or as well as rescheduled repayments for loans advanced).

A gain/(loss) on assets measured at fair value through profit or loss is recognised in profit or loss under 'Change in investments measured at fair value'. Interest income from assets measured at fair value is presented in a separate line in the statement of profit or loss.

3.4.2. Trade and other receivables

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

When measuring trade receivables, the Group applies the simplified approach permitted under IFRS 9, using the provisions matrix to calculate expected credit losses for receivables.

Impairment of trade and other receivables

The KRUK Group recognises an allowance for expected credit losses on trade and other receivables that do not contain a significant financing component at an amount equal to lifetime expected credit losses. To estimate expected credit losses on trade receivables, the Group entities use a provision matrix estimated based on historical data on payments of amounts due from clients, which is regularly updated.

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

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

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

3.4.3. Financial liabilities other than derivative instruments and other liabilities

Financial liabilities other than derivative instruments

The Group classifies financial liabilities as measured at amortised cost.

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, and lease liabilities (Note 3.5.4).

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

Trade and other payables

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

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

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

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. 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.

3.4.4. Derivative instruments and hedge accounting

Hedge accounting

Under IFRS 9, to apply hedge accounting, the Group 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 Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio, where the hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument);

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

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

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

Discontinuation of hedge accounting

The Group 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.

A hedging relationship is terminated in its entirety when, as a whole, it no longer meets the qualifying criteria, in particular:

a) where the hedging relationship no longer meets the risk management objective based on which it was qualified for hedge accounting (i.e. the entity no longer pursues that risk management objective);

b) where the hedging instrument or instruments have been sold or terminated (with respect to the entire volume that was part of the hedging relationship);

c) where an economic relationship between the hedged item and the hedging instrument no longer exists, or the credit risk starts to dominate the value changes that result from that economic relationship.

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 Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

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

Hedging of a net investment in a foreign operation

Hedge accounting for a net investment in a foreign operation consists in hedging the currency exposure of the interest in net assets of a 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 Parent 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 hedge ratio for the established hedging relationship is set at a level that ensures effectiveness of the relationship and is consistent with the actual quantity of the hedged item and the quantity of the hedging instrument.
  The hedge ratio for a given relationship is set at 1.0 (i.e. each unit of the notional amount of the hedging instrument hedges a unit of the designated notional amount of the hedged item).

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

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

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

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

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

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

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

The 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.

Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

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.

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.

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.
Assets are depreciated beginning in the month after they are placed in service. Depreciation expense is recognised in the current period's profit or loss, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Land is not depreciated.

The 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
Other property, plant and equipment	3-8	years

3.5.4. Right of use and lease liabilities

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

The 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 term was determined taking into account the extension and shortening options available under executed contracts if the option is likely to be exercised.

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

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

and

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

After the commencement date, the lease liability is measured by:

a) increasing the carrying amount to reflect interest on the lease liabilities,
b) reducing the carrying amount to reflect the lease payments made,
   and
c) remeasuring the carrying amount to reflect any lease reassessment or modification, or to reflect revised in-substance fixed lease payments.

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life of the asset or the lease term, unless the Group is certain that it obtains ownership before the end of the lease, while lease liabilities are measured at amortised cost.

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

Property foreclosed through debt recovery is now recognised by the Group under 'Inventories'.

The Group forecloses certain properties in the process of purchased debt collection. Foreclosed properties are held to generate income (proceeds) from sale. The value of the property is recognised in the statement of financial position after the Group has obtained the rights to dispose of the property, i.e. once a final court decision has been issued, and the amount is deducted from the amount of the indebted person's debt. Foreclosed property is initially measured at the value of recoveries projected as at the acquisition date. Subsequent to initial recognition, it is measured at the lower of the value of projected recoveries and net realisable value.

Property is derecognised from the statement of financial position the moment it ceases to bring economic benefits or is sold. The difference between the carrying amount and the sale proceeds is recognised in the statement of profit or loss for the period under income.

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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 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. Intangible assets

Other acquired or internally produced intangible assets with finite useful economic lives are initially recognised at cost. Following initial recognition, intangible assets are reduced by amortisation charges and impairment losses.

3.7.3. Amortisation

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

3.7.4. Assets amortised over time and intangible assets under development

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 assets amortised over time until the system is placed in service. Once placed in service, those assets and subscription fees paid in advance are accounted for in proportion to the duration of the contract with the supplier.

3.8. Investments

Investments include:

- Debt portfolios measured at amortised cost (for policies applied in the valuation of such portfolios, see Note 3.4.1);
- Loans (for policies followed in accounting for loans, see Note 3.4.1).

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 also includes accrued interest.

3.10. Impairment losses on assets

3.10.1. Financial assets

For information on the recognition of impairment losses, see Notes 3.4.1 and 3.4.2.

3.10.2. Non-financial assets

The recoverable amount of assets or cash-generating units is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted at a rate which reflects current market assessments of the time value of money and the risks specific to the asset. 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, broken down into individual countries where the tested asset exists. 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 recognised on a business combination is allocated to the cash-generating units for which synergies are expected as a result of the business combination. The current assumptions are described in Note 16.

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.

Goodwill impairment losses are irreversible. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that impairment loss has decreased or no longer exists. 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 (legal and notarial expenses, IPO costs) adjusted by the effect of taxes, reduce equity.

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

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

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 3.4.3.

3.13. Employee benefits

3.13.1. Defined contribution plan

Pension contributions paid to the Social Insurance Institution are classified as defined contribution plans. Contributions payable to a defined contribution plan are recognised as cost of employee benefits and charged to profit or loss in the period when the employee rendered the related service. A prepayment is recognised as an item under other receivables to the extent that the prepayment will lead to a reduction in future payments or a cash refund. Contributions to a defined contribution plan that fall due within more than twelve months after the period in which the employee rendered the related service are discounted to their present value.

3.13.2. Employee benefit obligations

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

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

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

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

Valuation of the plan has been performed using the Black-Scholes model. The selected model takes into account all the 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 will purchase the shares corresponding to such options between the option vesting date and the plan closing date. The management stock option plan is described in Note 23.

3.14. Provisions

A provision is recognised if the KRUK Group has a present (legal or constructive) obligation arising from past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where this amount is material, the provision is estimated by discounting expected future cash flows based on a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks related to the specific liability. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The KRUK Group recognises provisions for the risk of partial refund of the commissions in the event of early loan repayment (see Note 29).

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

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

3.15.1. Revenue from purchased debt portfolios

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

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

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

3.15.2. Revenue from credit management services

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

3.15.3. Revenue from other services

Revenue from loans

Revenue from loans includes mainly interest income on investments in loans and is presented in the statement of profit or loss under 'Interest income on debt portfolios and loans measured at amortised cost' and 'Interest income on loans measured at fair value', depending on the adopted measurement method.

Revenue from loans is calculated at the effective interest rate based on expected cash flows. Expected cash flows are determined on the basis of life tables prepared based on historical data on loan prepayments. The life of a loan changes with the time from loan origination; life tables are also periodically backtested and changed if testing reveals a need for change. For Basket 1 and Basket 2, interest income accrues on the gross carrying amount of the loans, and for Basket 3 – on the net carrying amount. If there is a change in the NBP reference rates, resulting in a change in interest rates on loans to clients, it is recognised in accordance with IFRS 9.B5.4.5, i.e. a new effective interest rate is determined. If the expectations of future cash flows change, the provisions of IFRS 9.B5.4.6 are applied, i.e. a new gross carrying amount is determined using the existing effective interest rate. Any difference between the gross carrying amount and the new carrying amount is charged to revenue from loans.

Revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, and auxiliary services provided to small and medium-sized enterprises

Revenue from other services includes, in addition to revenue from credit management services (described in Note 3.15.2), revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, and auxiliary services provided to small and medium-sized enterprises. Revenue from the provision of other services is recognised on a continuous basis in monthly and quarterly accounts, depending on the structure of the contract. Revenue from other services is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

3.15.4. Other income

Other income comprises operating income not directly related to the KRUK Group's main business objects. It includes in particular income from sale and retirement of property, plant and equipment, income/expenses from recharged services, damages received, penalties and fines, and grants received.

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

3.16. Employee benefits expense

Employee benefits expense includes:

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

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

3.17. Services

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

The costs of services are charged to current period expenses.

3.18. Lease payments

Lease payments are accounted for in accordance with IFRS 16; see Note 3.5.4.

3.19. Court fees

'Court fees' include costs incurred on court fees in connection with the in-court debt collection process.

The costs of court fees are charged to current period expenses.

3.20. Other expenses

Other expenses include:

- promotion, advertising and entertainment costs,
- fees payable to the Polish Financial Supervision Authority and the Central Securities Depository of Poland,
- taxes and charges (including property tax, VAT, municipal and administrative charges),
- insurance costs,
- goodwill impairment losses,
- infrastructure maintenance costs,
- provisions for straight-line fee refunds.

3.21. Finance income and costs

Finance income includes interest income on cash invested by the Group (net of income on purchased debt and revenue from loans advanced as part of operating activities, as described in section 3.4), dividends receivable and foreign exchange gains on translation of monetary items. 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 expense related to external financing, derivatives, hedging instruments, and foreign exchange losses on translation of monetary items. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method. Foreign exchange gains and losses are posted in net amounts.

3.22. 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.
The Group has chosen to present the provision for tax inspection outcome together with the interest due in the Current tax item in the statement of profit and loss and in the Provisions item in the statement of financial position. The above presentation will better reflect the impact on the Group's financial situation.
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 for the parent and group companies, and any adjustment to income tax payable in respect of previous years' income.

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

The 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 (three years). For each reporting date, the Group reviews the expected realizations from retained earnings in subsidiaries. Any adjustments to the amount of deferred tax liabilities are made based on results of the review.

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

3.24. 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.

3.25. 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 31 December 2023 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.

3.25.1. 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 1 January 2024:

Standards and interpretations endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements	Effective for periods beginning on or after
Amendments to IAS 1 *Presentation of Financial Statements* – Classification of Liabilities	The amendments concern the presentation of liabilities in the statement of financial position. In particular, they clarify that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. The amendments will apply prospectively.	The amendments have no significant effect on the consolidated financial statements.	1 January 2024
Amendments to IFRS 16 *Leases*: Lease Liability in a Sale and Leaseback	The amendments concern the measurement of lease liabilities in sale and leaseback transactions.	The amendments have no significant effect on the consolidated financial statements.	1 January 2024

3.25.2. Standards and interpretations issued but not yet adopted by the European Union

Standards and interpretations not yet endorsed by the EU	**Type of expected change in accounting policies**	**Possible effect on the financial statements**	**Effective for periods beginning on and after**
Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments* – Disclosures: Supplier Finance Arrangements	The amendments mandate the disclosure of information about how supply chain finance arrangements affect an entity's liabilities and cash flows and what is their effect on the entity's exposure to liquidity risk.	The Group is assessing the potential impact of the amendments on its consolidated financial statements.	1 January 2024
Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rate* – Lack of Exchangeability	The amendments clarify how an entity should assess whether a currency is exchangeable and determine the exchange rate when it is not as well as require certain additional disclosures in such cases.	The Group is assessing the potential impact of the amendments on its consolidated financial statements.	1 January 2025

4. Reportable and geographical segments

Reportable segments

Based on the criterion of materiality of revenue in the consolidated statement of profit or loss, the Group has identified the principal reportable segments presented below. 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 services: fee-based collection of debt on client's behalf;
- other: financial intermediation, lending, provision of business information.

In 2022–2023, the Group did not aggregate its reportable segments.

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.

The Group's operations are divided into the following geographical segments:

- Poland,
- Romania,
- Italy,
- Spain,
- 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 services and revenue from other products represent revenue from business partners.

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	Poland		Romania	Italy	Spain	Other foreign markets	Unallocated income / expenses	Head Office	TOTAL
	Poland excluding Wonga.pl	Wonga.pl							
Revenue	**1,075,422**	**139,300**	**586,949**	**412,572**	**305,514**	**51,209**	**21,614**	**-**	**2,592,580**
Purchased debt portfolios	1,020,899	-	580,684	401,354	289,612	51,209	-	-	**2,343,758**
including revaluation of projected recoveries	*212,045*	-	*197,064*	*24,978*	*3,186*	*1,712*	-	-	***438,985***
Credit management services	30,337	-	379	11,218	15,902	-	-	-	**57,836**
Other products	24,186	139,300	5,886	-	-	-	-	-	**169,372**
Other income	-	-	-	-	-	-	21,614	-	**21,614**
Direct and indirect costs	**(295,977)**	**(50,500)**	**(125,380)**	**(197,377)**	**(173,880)**	**(26,884)**	**(10,120)**	**-**	**(880,118)**
Purchased debt portfolios	(260,735)		(121,334)	(188,914)	(151,422)	(26,884)	-	-	**(749,289)**
Credit management services	(22,485)	-	(50)	(8,463)	(22,458)	-	-	-	**(53,456)**
Other products	(12,757)	(50,500)	(3,996)	-	-	-	-	-	**(67,253)**
Unallocated expenses	-	-	-	-	-	-	(10,120)	-	**(10,120)**
Gross profit[1]	**779,445**	**88,800**	**461,569**	**215,195**	**131,634**	**24,325**	**11,494**	**-**	**1,712,462**
Purchased debt portfolios	760,164	-	459,350	212,440	138,190	24,325	-	-	**1,594,469**
Credit management services	7,852	-	329	2,755	(6,556)	-	-	-	**4,380**
Other products	11,429	88,800	1,890	-	-	-	-	-	**102,119**
Unallocated income / expenses	-	-	-	-	-	-	11,494	-	**11,494**
Administrative expenses	(77,233)	(12,764)	(31,682)	(36,430)	(25,275)	(14,155)	-	(129,468)	**(327,007)**
EBITDA [2]	**702,212**	**76,036**	**429,887**	**178,765**	**106,359**	**10,170**	**11,494**	**(129,468)**	**1,385,455**
Depreciation and amortisation									**(58,297)**
Finance income/costs									**(289,684)**
Profit before tax									**1,037,474**
Income tax									**(53,273)**
Net profit									**984,201**
Carrying amount of debt portfolios	**3,227,738**	**-**	**1,443,091**	**2,143,988**	**1,704,661**	**154,287**	**-**	**-**	**8,673,765**
Carrying amount of loans	**87,614**	**311,324**	**19,190**	**-**	**-**	**-**	**-**	**-**	**418,128**
Cash recoveries	**1,351,141**	**-**	**634,852**	**568,609**	**390,416**	**117,455**	**-**	**-**	**3,062,473**

[1] *Gross profit = revenue – direct and indirect costs*
[2] *EBITDA = gross profit – administrative expenses*

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	Poland		Romania	Italy	Spain	Other foreign markets	Unallocated income / expenses	Head Office	TOTAL
	Poland excluding Wonga.pl	Wonga.pl							
Revenue	**906,496**	**128,658**	**548,608**	**360,874**	**135,714**	**58,884**	**6,556**	**-**	**2,145,790**
Purchased debt portfolios	848,774	-	533,204	352,252	119,562	58,884	-	-	**1,912,676**
including revaluation of projected recoveries	*156,884*	-	*206,443*	*49,261*	*(36,897)*	*8,169*	-	-	***383,860***
Credit management services	28,480	-	11,691	8,622	16,152	-	-	-	**64,945**
Other products	29,242	128,658	3,713	-	-	-	-	-	**161,613**
Other income	-	-	-	-	-	-	6,556	-	**6,556**
Direct and indirect costs	**(291,722)**	**(45,362)**	**(111,840)**	**(180,056)**	**(122,523)**	**(22,804)**	**(8,400)**	-	**(782,707)**
Purchased debt portfolios	(255,801)		(101,815)	(172,425)	(100,180)	(22,804)	-	-	**(653,025)**
Credit management services	(21,280)	-	(6,696)	(7,631)	(22,343)	-	-	-	**(57,950)**
Other products	(14,641)	(45,362)	(3,329)	-	-	-	-	-	**(63,332)**
Unallocated expenses	-	-	-	-	-	-	(8,400)	-	**(8,400)**
Gross profit[1]	**614,774**	**83,296**	**436,768**	**180,818**	**13,191**	**36,080**	**(1,844)**	**-**	**1,363,083**
Purchased debt portfolios	592,973	-	431,389	179,827	19,382	36,080	-	-	**1,259,651**
Credit management services	7,200	-	4,995	991	(6,191)	-	-	-	**6,995**
Other products	14,601	83,296	384	-	-	-	-	-	**98,281**
Unallocated income / expenses	-	-	-	-	-	-	(1,844)	-	**(1,844)**
Administrative expenses	(61,196)	(11,666)	(29,296)	(30,807)	(19,212)	(10,382)	-	(106,495)	**(269,054)**
EBITDA [2]	553,578	71,630	407,472	150,011	(6,021)	25,698	(1,844)	(106,495)	**1,094,029**
Depreciation and amortisation									**(51,188)**
Finance income/costs									**(179,131)**
Profit before tax									**863,710**
Income tax									**(58,692)**
Net profit									**805,018**
Carrying amount of debt portfolios	**2,770,375**	**-**	**1,256 223**	**1,472 130**	**1,101,433**	**167,926**	**-**	**-**	**6,768,087**
Carrying amount of loans	**64,721**	**288,354**	**16,368**	**-**	**-**	**-**	**-**	**-**	**369,443**
Cash recoveries	**1,232,077**	**-**	**593,139**	**456,745**	**246,439**	**98,942**	**-**	**-**	**2,627,343**

[1] *Gross profit = revenue – direct and indirect costs*

[2] *EBITDA = gross profit – administrative expenses*

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

PLN '000	**1 Jan–31 Dec 2023**					**1 Jan–31 Dec 2022**				
	Purchased debt portfolios	**Revenue from credit management services**	**Revenue from other services**	**Other income**	**Total**	**Purchased debt portfolios**	**Revenue from credit management services**	**Revenue from other services**	**Other income**	**Total**
Interest income on debt portfolios and loans measured at amortised cost	1,490,006	-	233,725	-	**1,723,731**	1,169,202	-	220,864	-	**1,390,066**
Interest income on loans measured at fair value	-	-	4,529	-	**4,529**	-	-	10,129	-	**10,129**
Revenue from sale of debts* and loans	7,305	-	-	-	**7,305**	22,925	-	(9,263)	-	**13,662**
Other income/expenses from purchased debt portfolios	(19,666)	-	-	-	**(19,666)**	(16,530)	-	-	-	**(16,530)**
Revenue from other services	-	57,836	1,385	-	**59,221**	-	64,945	9,427	-	**74,372**
Other income	-	-		21,614	**21,614**	-	-	-	6,556	**6,556**
Change in investments measured at fair value	-	-	1	-	**1**	-	-	3,400	-	**3,400**
Gain/(loss) on expected credit losses	866,113	-	(70,268)	-	**795,845**	737,079	-	(72,944)	-	**664,135**
	2,343,758	57,836	169,372	21,614	**2,592,580**	1,912,676	64,945	161,613	6,556	**2,145,790**

*As part of its debt recovery processes, the Group occasionally sells cases from debt portfolios. At the time of sale, they are derecognised by the Group.

Other income/expenses from purchased debt portfolios

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Foreign currency gains/(losses)	(7,596)	(1,908)
Costs of loyalty scheme valuation	(6,153)	(6,624)
Costs of provision for overpayments	(5,917)	(7,998)
	(19,666)	(16,530)

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

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Revaluation of projected recoveries	438,985	383,860
Deviations of actual recoveries, decreases on early collections in collateralised cases, payments from original creditor	427,128	353,219
	866,113	737,079

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. discount rate in case of change in the amount of the purchased debt portfolio,
b. cash flows estimation period;
c. expected future cash flows estimated using the current data and debt collection tools.
d. The Group analyses the impact of macroeconomic factors on projected recoveries; historically, no correlation between recoveries from purchased debt portfolios and the macroeconomic situation has been found.

Assumptions adopted in the valuation of debt portfolios

	31 Dec 2023	31 Dec 2022
Discount rate *	8.00%-147.10%	8.00%-147.10%
Cash flows estimation period	Jan 2024–Dec 2043	Jan 2023–Jun 2043
Undiscounted value of expected future recoveries	18,397,175	13,764,663

** Applicable to 99% of debt portfolios.*

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

PLN '000

Period	31 Dec 2023	31 Dec 2022
Up to 12 months	2,687,036	2,181,714
From 1 to 2 years	2,526,899	1,979,975
From 2 to 3 years	2,239,826	1,745,420
From 3 to 4 years	1,869,962	1,453,870
From 4 to 5 years	1,573,277	1,172,660
From 5 to 6 years	1,307,232	948,012
From 6 to 7 years	1,054,058	785,290
From 7 to 8 years	886,242	632,161
From 8 to 9 years	756,219	538,006
From 9 to 10 years	657,862	453,222
From 10 to 11 years	576,293	392,846
From 11 to 12 years	504,106	345,127
From 12 to 13 years	430,353	294,225
From 13 to 14 years	340,383	243,635
From 14 to 15 years	272,407	186,276
Over 15 years	715,020	412,224
	18,397,175	13,764,663

PLN '000

		31 Dec 2023	31 Dec 2022
discount rate:			
	< 25%	12,779,718	9,392,269
	25%-50%	4,837,595	3,753,717
	> 50%	779,862	618,677
		18,397,175	13,764,663

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

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

Revenue from loans

Revenue from loans measured at amortised cost

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Interest income	233,725	220,864
Allowance for expected credit losses	(70,268)	(72,944)
Profit/(loss) on loans	-	(9,263)
	163,457	138,657

Revenue from loans measured at fair value

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Interest income	4,529	10,129
Remeasurement	1	3,400
	4,530	13,529

Revenue from other services

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Revenue from credit management services	57,836	64,945
Revenue from collection, processing and provision of credit information on natural persons and business entities, financial intermediation and agency services, and auxiliary services provided to small and medium-sized enterprises	1,385	9,427
	59,221	74,372

The performance obligation arises upon execution of the contract and provision of the data necessary to initiate the debt recovery process (Note 3.15.2). Payment for services is made within 14-30 days of the respective invoice date.

Revenue from fee-based credit management comprises commission fees ranging from 2% to 49% of the collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's largest business partner accounted for 14% of total revenue from fee-based credit management (2022: 10%).

Other income

PLN '000	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Sale of shares in subsidiaries*	16	15,103	-
Recharged costs of services and court fees		2,374	1,905
Gain on sale of property, plant and equipment		1,184	1,617
Rental		911	1,546
Write-off of unidentified amounts		21	278
Compensation for motor damage		-	244
Other cooperation		587	64
Other		1,434	902
		21,614	6,556

*gain on sale of shares in ERIF Biuro Informacji Gospodarczej S.A. and shares in ERIF Business Solutions sp. z o.o.

6. Services

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Credit management services[1]	(52,800)	(46,514)
IT services	(52,758)	(27,429)
Legal assistance services[2]	(30,199)	(38,868)
Administrative and accounting support services	(25,706)	(19,243)
Postal and courier services	(24,320)	(18,686)
Banking services[3]	(13,069)	(12,381)
Communications services	(11,807)	(9,572)
Marketing and management services	(11,167)	(9,304)
Space rental and service charges	(9,665)	(9,204)
Printing services	(3,453)	(3,661)
Security	(2,413)	(2,313)
Other auxiliary services	(2,372)	(1,605)
Recruitment services	(1,992)	(3,109)
Repair and maintenance services	(1,491)	(816)
Repair of vehicles	(1,312)	(1,353)
Other rental	(460)	(702)
Transport services	(196)	(177)
Packing services	(110)	(122)
	(245,290)	(205,059)

[1] *Costs of debt management services provided by external service providers.*
[2] *Legal assistance mainly relates to debt portfolio management.*
[3] *Costs of operating bank accounts, transcollect and direct debit services.*

7. Court fees

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Legal expenses	(228,342)	(179,419)
Bailiff fees	(123,551)	(108,722)
Stamp duties	(1,360)	(1,575)
	(353,253)	(289,716)

8. Other expenses

PLN '000	***Note***	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Taxes and charges		(22,586)	(36,219)
Raw materials and consumables used		(12,354)	(14,741)
Entertainment expenses		(10,108)	(2,964)
Goodwill impairment losses	*16*	(8,003)	(7,262)
Staff training		(6,836)	(4,457)
Advertising		(6,163)	(7,923)
Business trips		(4,424)	(2,262)
Non-deductible VAT		(2,318)	(2,921)
Refund of litigation costs		(1,388)	(1,944)
Property insurance		(1,001)	(916)
Motor insurance		(970)	(1,375)
Non-compete agreements		(363)	(425)
Membership fees		(238)	(293)
Losses caused by motor damage		(96)	(194)
Provision for possible differences related to straight-line basis settlement	*29*	3,026	4,315
Other		(5,469)	(1,919)
		(79,291)	(81,500)

9. Employee benefits expense

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Salaries and wages	(402,314)	(359,381)
Old-age and disability pension contributions	(28,426)	(28,798)
Other social security contributions	(74,534)	(57,722)
Contribution to the State Fund for the Disabled	(2,066)	(1,891)
Equity-settled cost of stock option plan[1]	(21,951)	(27,694)
	(529,291)	(475,486)

[1] The management stock option plans are described in Note 23.

10. Finance income and costs

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

Finance income

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Interest income on bank deposits	1,489	711
Net foreign exchange losses	8,742	6,608
	10,231	7,319

Finance costs

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Interest and commission expense on financial liabilities measured at amortised cost	(374,947)	(215,221)
including interest	*(356,680)*	*(200,754)*
Interest income/expense on hedging instruments – IRS	19,758	8,901
Hedging costs	54,279	19,770
Interest income/expense on hedging instruments – CIRS	995	99
	(299,915)	(186,450)

Effect of exchange rate movements on statement of profit or loss

PLN '000	*Note*	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Realised exchange gains/(losses)	*10*	(170)	524
Unrealised exchange gains/(losses)	*10*	8,912	6,084
Remeasurement of debt portfolios due to exchange rate movements	*5*	(7,596)	(1,908)
		1,146	4,700

11. Exchange differences on translating foreign operations

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Exchange differences on translating foreign operations	(196,297)	24,741
Attributable to:		
Owners of the Parent	(196,319)	24,740
Non-controlling interests	22	1
Finance income/(cost) recognised directly in other comprehensive income	(196,297)	24,741

The decrease in exchange differences on translating foreign operations in 2023 compared to 2022 was attributable to the appreciation of the Polish currency against foreign currencies.

12. Income tax

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

PLN '000	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Current income tax			
Current income tax payable*		(63,896)	(35,005)
Deferred income tax			
Related to temporary differences and their reversal	19	10,623	(23,687)
Income tax recognised in profit or loss		(53,273)	(58,692)
Deferred income tax			
Related to temporary differences and their reversal		(10,473)	(3,294)
Income tax recognised in other comprehensive income		(10,473)	(3,294)
Income tax recognised in comprehensive income		(63,746)	(61,986)

*The amount of tax disclosed in these financial statements includes income tax, CFC tax and the provision for tax inspection outcome

Reconciliation of effective tax rate

The effective income tax rate differs from the enacted income 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	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Profit before tax	1,037,474	863,710
Tax calculated at the Parent's rate (19%)	(197,120)	(164,105)
Effect of application of other income tax rates abroad and effect of deferred tax	1,817	7,499
Differences resulting from ability to control the timing of reversal of temporary differences relating to the measurement of net assets of subsidiaries and the probability of their reversal in the foreseeable future, and other non-deductible expenses/non-taxable income	170,584	97,914
Provision for tax inspection outcome	(28,554)	-
Income tax recognised in profit or loss	(53,273)	(58,692)
Effective income tax rate (%)	5.13%	6.80%

The lower effective tax rate in 2023 compared to 2022 is primarily due to the significant share of the financial results of consolidated companies, the tax value of which will be realised more than three years after the reporting date. The Group is able to control the timing of the reversal of temporary differences, and it is probable that these differences will not reverse in the foreseeable future.

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 – in the opinion of the Group – 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.

The Parent is the subject to inspection of corporate income tax settlements for 2018–2020 is ongoing at KRUK S.A. The inspecting authority is the Customs and Tax Office in Kraków. The estimated provision for potential tax debt has been recognised by the Group in profit or loss for 2023 (see Note 29).

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

PLN '000	***Note***	**31 Dec 2023**	**31 Dec 2022**
Assets			
Non-current assets			
Property, plant and equipment	*14*	91,777	71,422
Other intangible assets	*15*	67,206	70,833
Goodwill	*16*	8,084	17,026
Investments	*17*	6,416,303	4,951,442
Hedging instruments	*26*	82,848	42,762
Deferred tax asset	*19*	45,958	44,921
Total non-current assets		6,712,176	5,198,406
Current assets			
Inventories	*18*	15,038	16,369
Investments	*17*	2,675,590	2,186,088
Trade receivables	*20*	24,440	13,033
Other receivables	*20*	58,970	41,156
Income tax receivable		22,398	-
Hedging instruments	*26*	15,580	3,329
Other assets	*22*	15,852	20,541
Cash and cash equivalents	*21*	388,461	202,160
Total current assets		3,216,329	2,482,676
Total assets		9,928,505	7,681,082
Equity and liabilities			
Equity			
Share capital	*23*	19,319	19,319
Share premium		358,506	358,506
Hedge reserve	26	51,043	32,627
Measurement reserve (defined benefit plans)		3,331	4,155
Translation reserve		(95,871)	100,448
Other capital reserves		171,847	149,896
Retained earnings		3,283,218	2,589,066
Equity attributable to owners of the Parent		3,791,393	3,254,017
Non-controlling interests		(583)	(720)
Total equity		3,790,810	3,253,297
Non-current liabilities			
Borrowings, debt securities and leases	*25*	5,138,084	3,504,152
Deferred tax liability	*19*	202,307	201,420
Provisions	*29*	12,211	14,124
Hedging instruments	*26*	32,614	9,824
Total non-current liabilities		5,385,216	3,729,520

Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with the IFRS endorsed by the EU (PLN thousand)

Current liabilities			
Borrowings, debt securities and leases	*25*	393,083	441,642
Trade and other payables	*28*	220,448	158,271
Income tax payable		11,785	16,406
Employee benefit obligations	*27*	76,469	59,639
Provisions	*29*	50,694	22,307
Total current liabilities		752,479	698,265
Total liabilities		6,137,695	4,427,785
Total equity and liabilities		9,928,505	7,681,082

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

14. 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 1 Jan 2022	94,569	46,054	34,591	8,264	1,116	184,593
Reclassification of assets	(1,063)	(732)	(301)	2,096	-	-
Purchase	1,225	10,658	8,273	440	5,178	25,774
Sale/ retirement	(5)	(4,489)	(4,976)	(784)	(1,107)	(11,361)
Effect of exchange rate changes*	1,079	444	341	113	12	1,989
Gross carrying amount as at 31 Dec 2022	95,805	51,935	37,928	10,129	5,199	200,996

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 1 Jan 2023	95,805	51,935	37,928	10,129	5,199	200,996
Purchase	32,219	15,536	9,820	47	3,757	61,379
Sale/ retirement	(19,703)	(2,419)	(4,419)	(415)	-	(26,956)
Accounting for assets under construction	3,896	2,192	-	2,220	(8,308)	-
Effect of exchange rate changes*	(4,545)	(1,681)	(1,257)	(392)	(222)	(8,097)
Gross carrying amount as at 31 Dec 2023	107,672	65,563	42,072	11,589	426	227,322

Accumulated depreciation

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation as at 1 Jan 2022	(46,837)	(34,377)	(14,690)	(8,440)	-	(104,344)
Depreciation	(16,857)	(6,255)	(9,011)	(1,855)	-	(33,978)
Decrease resulting from sale / retirement	5	4,415	3,977	1,672	-	10,069
Effect of exchange rate changes*	(650)	(362)	(226)	(83)		(1,321)
Accumulated depreciation as at 31 Dec 2022	(64,339)	(36,579)	(19,950)	(8,706)	-	(129,574)

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Accumulated depreciation as at 1 Jan 2023	(64,339)	(36,579)	(19,950)	(8,706)	-	(129,574)
Depreciation	(16,455)	(8,120)	(10,357)	(766)	-	(35,698)
Decrease resulting from sale / retirement	15,481	2,326	4,828	415	-	23,050
Effect of exchange rate changes*	3,678	1,392	1,250	357		6,677
Accumulated depreciation as at 31 Dec 2023	(61,635)	(40,981)	(24,229)	(8,700)	-	(135,545)

Net carrying amount

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
As at 1 Jan 2022	47,731	11,677	19,901	(176)	1,116	80,249
As at 31 Dec 2022	31,466	15,356	17,978	1,423	5,199	71,422
As at 1 Jan 2023	31,466	15,356	17,978	1,423	5,199	71,422
As at 31 Dec 2023	46,037	24,582	17,843	2,889	426	91,777

** Exchange differences on translating financial statements in currencies other than PLN.*

In 2023 and 2022, there were no impairment losses.

For more information on security interests in property, plant and equipment, see Note 25.
As at 31 December 2023 and 31 December 2022, the value of contractual commitments to purchase property, plant and equipment was PLN 0.

The data relating to property, plant and equipment presented in the '*Right-of-use'* section is disclosed in the table above.

Right of use

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Carrying amount of right-of-use assets, by class of underlying asset at beginning of period		
Buildings and structures	29,685	42,157
Plant and equipment	218	351
Vehicles	17,096	16,148
Intangible assets – software	19,034	-
	66,033	58,656
Cost of depreciation of right-of-use assets in the reporting period, by class of underlying asset		
Buildings and structures	(15,682)	(16,492)
Plant and equipment	(125)	(134)
Vehicles	(10,212)	(8,802)
Intangible assets – software	(7,692)	(3,027)
	(33,711)	(28,455)
Increase in right-of-use assets	42,685	30,647
Decrease in right-of-use assets due to liquidation/termination of contract	(4,605)	(2,239)
Translation differences	1,521	7,424
Carrying amount of right-of-use assets, by class of underlying asset at end of period		
Buildings and structures	42,431	29,685
Plant and equipment	187	218
Vehicles	17,186	17,096
Intangible assets – software	12,119	19,034
	71,923	66,033
Interest expense relating to lease liabilities	3,293	2,878
Cost relating to variable lease payments not included in the measurement of lease liabilities	-	-
Total cash outflow in connection with leases	41,022	33,795

In 2023, costs under short-term and low-value contracts were PLN 460 thousand (2022: PLN 702 thousand).

15. Other intangible assets

Gross carrying amount of intangible assets

PLN '000	**Software, licences, permits**	**Other**	**Intangible assets under development**	**Assets amortised over time**	**Total**
Gross carrying amount as at 1 Jan 2022	102,441	369	351	238	103,400
Produced internally	397	-	3,142	-	3,539
Purchase	34,752	-	6,711	-	41,463
Retirement	(846)	-	-	-	(846)
Accounting for assets under development/ amortised over time	1,336	-	(1,098)	(238)	-
Effect of exchange rate changes*	393	-	40	-	433
Gross carrying amount as at 31 Dec 2022	138,473	369	9,147	-	147,989
Gross carrying amount as at 1 Jan 2023	138,473	369	9,147	-	147,989
Produced internally	317	-	7,165	-	7,482
Purchase	15,364	-	1,067	-	16,431
Retirement	(9,538)	-	-	-	(9,538)
Accounting for assets under development/ amortised over time	7,576		(7,576)	-	-
Effect of exchange rate changes*	(1,693)	-	-	-	(1,693)
Gross carrying amount as at 31 Dec 2023	150,499	369	9,803	-	160,671

Accumulated amortisation

PLN '000	**Software, licences, permits**	**Other**	**Intangible assets under development**	**Assets amortised over time**	**Total**
Accumulated amortisation as at 1 Jan 2022	(59,557)	(369)	-	-	(59,926)
Amortisation	(17,210)	-	-	-	(17,210)
Decrease resulting from sale / retirement	290	-	-	-	290
Effect of exchange rate changes*	(310)	-	-	-	(310)
Accumulated amortisation as at 31 Dec 2022	(76,786)	(369)	-	-	(77,155)
Accumulated amortisation as at 1 Jan 2023	(76,786)	(369)	-	-	(77,155)
Amortisation	(22,599)	-	-		(22,599)
Decrease resulting from sale / retirement	5,033	-	-	-	5,033
Effect of exchange rate changes*	1,256	-			1,256
Accumulated amortisation as at 31 Dec 2023	(93,096)	(369)	-	-	(93,465)

Net carrying amount

PLN '000	Software, licences, permits	Other	Intangible assets under development	Assets amortised over time	Total
As at 1 Jan 2022	42,885	-	351	238	43,474
As at 31 Dec 2022	61,686	-	9,147	-	70,833
As at 1 Jan 2023	61,686	-	9,147	-	70,833
As at 31 Dec 2023	57,403	-	9,803	-	67,206

** Exchange differences on translating financial statements in currencies other than PLN.*

In 2023 and 2022, there were no impairment losses.

As at 31 December 2023 and 31 December 2022, the Group had no contractual obligations to purchase intangible assets.

The data relating to intangible assets presented in Note 14 under '*Right of use'* is disclosed in the table above.

16. Goodwill

PLN '000	Kancelaria Prawna RAVEN	Kruk Espana S.L.	ERIF BIG S.A.	Total
Gross carrying amount as at 1 Jan 2022	299	47,867	725	48,891
Increase	-	-	-	-
Decrease	-	-	-	-
Translation differences	-	448	-	448
Gross carrying amount as at 31 Dec 2022	299	48,315	725	49,339
Gross carrying amount as at 1 Jan 2023	299	48,315	725	49,339
Increase	-	-	-	-
Decrease	-	-	(725)	(725)
Translation differences	-	(214)	-	(214)
Gross carrying amount as at 31 Dec 2023	299	48,101	-	48,400
Impairment losses				
Impairment losses as at 1 Jan 2022	-	(25,051)	-	(25,051)
Increase	-	(7,262)	-	(7,262)
Decrease	-	-	-	-
Impairment losses as at 31 Dec 2022	-	(32,313)	-	(32,313)
Impairment losses as at 1 Jan 2023	-	(32,313)	-	(32,313)
Increase	-	(8,003)	-	(8,003)
Decrease	-	-	-	-
Impairment losses as at 31 Dec 2023	-	(40,316)	-	(40,316)
Net carrying amount				
As at 1 Jan 2022	299	22,816	725	23,840
As at 31 Dec 2022	299	16,002	725	17,026
As at 1 Jan 2023	299	16,002	725	17,026
As at 31 Dec 2023	299	7,785	-	8,084

Sale of subsidiaries

On 3 January 2023, negotiations were concluded and an agreement was signed for the sale by the Company of all shares in ERIF Biuro Informacji Gospodarczej S.A. and ERIF Business Solutions Sp. z o.o. The ownership title to the shares was transferred, and control was lost, on the date on which the Company's bank account was credited with the sale price, i.e. on 24 January 2023. KRUK S.A. sold the companies for PLN 23,416 thousand. PLN 16,776 thousand was paid in cash, while the remaining PLN 6,639 thousand was offset against an existing liability under a loan received from ERIF Biuro Informacji Gospodarczej S.A.

Below are presented the amounts of assets and liabilities over which control was lost:

PLN '000	ERIF Biuro Informacji Gospodarczej S.A.	ERIF Business Solutions Sp. z o.o.
ASSETS	**Final data at the loss of control date 24 January 2023**	**Final data at the loss of control date 24 January 2023**
Cash and cash equivalents	7,430	62
Trade receivables	937	21
Deferred tax asset	26	-
Investments	201	-
Property, plant and equipment	82	-
Goodwill	725	
Other intangible assets	143	55
Other assets	20	9
TOTAL ASSETS	9,564	147
LIABILITIES	**Final data at the loss of control date 24 January 2023**	**Final data at the loss of control date 24 January 2023**
Trade and other payables	280	231
Employee benefit obligations	825	63
TOTAL LIABILITIES	1,105	294

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. In the case of Espand Soluciones de Gestion S.L., which was acquired in 2016 and subsequently merged with KRUK España S.L., the cash-generating unit in 2017 was the credit management business (debt collection services for unrelated undertakings), as such was the company's business profile prior to the acquisition and these activities were 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 four-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, broken down into individual countries where the tested asset exists. 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 31 December 2023, weighted average cost of capital for the debt collection industry in Spain was at 6.90%; as at 31 December 2022: 7.37%). The residual value was calculated using a growth rate equal to the average of projected inflation rates during the forecast period, of 2.36% for Spain (as at 31 December 2022: 3.12%).

The estimated amount of the gross profit affects the present value of future cash flows of cash-generating units. In 2023, indications were identified for an additional impairment loss of PLN 8,003 thousand on Espand goodwill, resulting in a total impairment loss of PLN 40,316 thousand as at 31 December 2023 (compared with impairment loss of PLN 32,313 thousand as at 31 December 2022).

Sensitivity analysis for Espand goodwill

The Group conducted a sensitivity analysis of the Espand goodwill impairment test to changes in the weighted average cost of capital based on the Kruk Espana Inkaso results scenario (+/- 0.5pp).

The results are shown in the table below:

	weighted average cost of capital		
PLN '000	**6.4%**	**6.9%**	**7.4%**
Value in use of the assets	10,729	9,440	8,407

With the currently assumed weighted average cost of capital at 6.9%, the value in use of assets is PLN 9,440 thousand, which is lower than the carrying amount (PLN 17,443 thousand), resulting in an impairment loss of PLN -8,003 thousand. The analysis showed that a change in the weighted average cost of capital by +/- 0.5pp would result in impairment loss of PLN -6,714 thousand and PLN -9,036 thousand, respectively.

The discount rate at which the value in use offsets the carrying amount (no impairment loss) is 4.93%.

17. Investments

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Investments in debt portfolios	8,673,765	6,768,087
Loans measured at amortised cost	412,510	357,003
Loans measured at fair value	5,618	12,440
	9,091,893	7,137,530

Investments measured at amortised cost

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Investments in debt portfolios	8,673,765	6,768,087
Loans measured at amortised cost	412,510	357,003
	9,086,275	7,125,090

Investments in debt portfolios

For the rules followed in the valuation of investments in debt portfolios, see Note 3.4.1. Investments in debt portfolios are divided into the following main categories:

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Unsecured portfolios	7,822,296	6,008,230
Secured portfolios	851,469	759,857
	8,673,765	6,768,087

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

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

There was no significant change in the quality of the assets pledged as security. Each acquired secured portfolio is slightly different, with due diligence performed for the portfolios on a case-by-case basis.

The change in expected credit losses on remeasurement of forecast inflows from secured portfolios was PLN -16,785 thousand in 2023 (2022: PLN -57,454 thousand).

Sensitivity analysis – revaluation of projected recoveries

The 1% increase in all projected recoveries would result in an increase in the value of portfolios and thus in net profit/(loss) for the reporting period by PLN 77,888 thousand, while the 1% decrease in all projected recoveries would result in a decrease in the value of portfolios, thus reducing net profit/(loss) by PLN 77,888 thousand for the data as at 31 December 2023 (a PLN 57,625 thousand increase/decrease, respectively, for the data as at 31 December 2022).

PLN '000

	Profit or loss for the current period	
	100 bps increase in recoveries	**100 bps decrease in recoveries**
31 Dec 2023		
Investments in debt portfolios	77,888	(77,888)
31 Dec 2022		
Investments in debt portfolios	57,625	(57,625)

Sensitivity analysis – time horizon

The sensitivity analysis assumes extension or shortening of the projection period with a simultaneous increase or decrease in the recovery projections (in the case of extension by one year, projected recoveries increased by PLN 28,445 thousand, in the case of shortening by one year, projected recoveries decreased by PLN 57,887 thousand; for 2022, the amounts were PLN 27,992 thousand and PLN 44,380 thousand, respectively).

PLN '000

	Profit or loss for the current period	
	extension by one year	**shortening by one year**
31 Dec 2023		
Investments in debt portfolios	427	(1,062)
31 Dec 2022		
Investments in debt portfolios	304	(598)

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on allowances for expected credit losses on loans, see Note 30.

Changes in net carrying amount

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

PLN '000

	Unsecured portfolios	Secured portfolios	Total
Carrying amount of investments in debt portfolios at 1 Jan 2022	**4,344,965**	**755,211**	**5,100,176**
Purchase of debt portfolios	2,130,808	180,264	2,311,072
Cash recoveries	(2,293,628)	(333,715)	(2,627,343)
Increase/(decrease) in liabilities to indebted persons due to overpayments	7,998	-	7,998
Valuation of loyalty scheme*	6,624	-	6,624
Revenue from purchased debt portfolios	1,758,830	153,846	1,912,676
Carrying amount of property foreclosed	-	(4,866)	(4,866)
Carrying amount of property sold	-	9,166	9,166
Translation differences on debt portfolios**	52,633	(49)	52,584
Carrying amount of investments in debt portfolios at 31 Dec 2022	**6,008,230**	**759,857**	**6,768,087**

PLN '000

	Unsecured portfolios	Secured portfolios	Total
Carrying amount of investments in debt portfolios at 1 Jan 2023	**6,008,230**	**759,857**	**6,768,087**
Purchase of debt portfolios	2,717,933	254,298	2,972,231
Cash recoveries	(2,730,606)	(331,867)	(3,062,473)
Increase/(decrease) in liabilities to indebted persons due to overpayments	5,917	-	5,917
Valuation of loyalty scheme*	6,153	-	6,153
Revenue from purchased debt portfolios	2,167,039	176,719	2,343,758
Carrying amount of property foreclosed	-	(3,321)	(3,321)
Carrying amount of property sold	-	4,623	4,623
Translation differences on debt portfolios**	(352,370)	(8,840)	(361,210)
Carrying amount of investments in debt portfolios at 31 Dec 2023	**7,822,296**	**851,469**	**8,673,765**

** The value of investments in debt portfolios is adjusted to account for the measurement of the loyalty scheme in connection with the recognition of costs related to the bonus plan under 'Other income/expenses from purchased debt portfolios'.*
*** Including purchased debt portfolios in currencies other than PLN.*

Changes in expected credit losses

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

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Cumulative expected credit losses on purchased debt portfolios at beginning of period	**2,328,752**	**1,600,562**
Revaluation of projected recoveries, including:	438,985	383,860
unsecured portfolios	*455,770*	*441,314*
secured portfolios	*(16,785)*	*(57,454)*
Deviations from actual recoveries, decreases on early collections in collateralised cases, including:	421,537	344,330
unsecured portfolios	*369,171*	*295,489*
secured portfolios	*52,366*	*48,841*
Cumulative expected credit losses on purchased debt portfolios at end of period	**3,189,274**	**2,328,752**

Amount of undiscounted cash flows as at the date of portfolio purchase

in thousands of PLN (converted at the average NBP rate on the reporting date)	**Debt portfolios purchased in 2023**	**Debt portfolios purchased in 2022**
Unsecured portfolios	6,252,916	4,823,527
Secured portfolios	468,896	300,797
	6,721,812	5,124,324

Loans

In 2023, 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 or floating rates. Additional revenue comprises commission fees and arrangement fees.

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Loans measured at amortised cost	412,510	357,003
Loans measured at fair value	5,618	12,440
	418,128	369,443

Loans measured at amortised cost

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

IFRS 9 classification		31 Dec 2023	31 Dec 2022
Gross carrying amount of loans measured at amortised cost			
	Basket 1	263,129	216,799
	Basket 2	111,884	117,473
	Basket 3	302,324	182,377
	POCI loans	1,323	1,478
		678,660	518,127
Allowance for expected credit losses			
	Basket 1	17,202	9,769
	Basket 2	24,182	17,316
	Basket 3	224,766	134,039
	POCI loans	-	-
		266,150	161,124
Net carrying amount			
	Basket 1	245,927	207,030
	Basket 2	87,702	100,157
	Basket 3	77,558	48,338
	POCI loans	1,323	1,478
		412,510	357,003

Changes in the net carrying amount of loans measured at amortised cost are presented below.

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Carrying amount of loans measured at amortised cost at beginning of period	**357,003**	**279,213**
Acquisition of loans as part of portfolio purchase	-	8,530
New disbursements	559,747	593,852
Repayments	(666,112)	(663,700)
Interest income	233,725	220,864
Allowance for expected credit losses	(70,268)	(72,944)
Gain/(loss) on sale of loans	-	(9,263)
Translation differences on loans	(1,585)	451
Carrying amount of loans measured at amortised cost at end of period	**412,510**	**357,003**

Changes in the gross carrying amount and allowances for expected credit losses are presented in Note 30.1.

Sensitivity analysis – revaluation of projected recoveries

The note presents the effect of a change in projected recoveries on the net carrying amount of loans measured at amortised cost as the effect of the change on net profit/(loss).

PLN '000	**Profit or loss for the current period**	
	100 bps increase in recoveries	**100 bps decrease in recoveries**
31 Dec 2023		
Loans measured at amortised cost	4,120	(4,120)
31 Dec 2022		
Loans measured at amortised cost	3,496	(3,511)

Sensitivity analysis – time horizon

The note presents the effect of extending or reducing the repayment projection period by one month on the net carrying amount of loans measured at amortised cost as the effect of the change on net profit or loss.

PLN '000	**Profit or loss for the current period**	
	extension by one month	**shortening by one month**
31 Dec 2023		
Loans measured at amortised cost	(9,005)	8,417
31 Dec 2022		
Loans measured at amortised cost	(5,885)	5,448

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on allowances for expected credit losses on loans, see Note 30.

Loans measured at fair value

Changes in the carrying amount of loans measured at fair value:

PLN '000	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Carrying amount of loans measured at fair value at beginning of period	**12,440**	**37,123**
New disbursements	-	-
Repayments	(11,352)	(38,212)
Interest income	4,529	10,129
Remeasurement	1	3,400
Carrying amount of loans measured at fair value at end of period	**5,618**	**12,440**

Sensitivity analysis – revaluation of projected recoveries

The note presents the effect of a change in projected recoveries on the carrying amount of loans measured at fair value as the effect of the change on net profit or loss.

PLN '000	**Profit or loss for the current period**	
	100 bps increase in recoveries	**100 bps decrease in recoveries**
31 Dec 2023		
Loans measured at fair value	56	(56)
31 Dec 2022		
Loans measured at fair value	124	(124)

Sensitivity analysis – time horizon

The note presents the effect of extending or shortening the recovery projection period by one month on the carrying amount of loans measured at fair value as the effect of the change on net profit or loss.

PLN '000	**Profit or loss for the current period**	
	extension by one month	**shortening by one month**
31 Dec 2023		
Loans measured at fair value	(150)	145
31 Dec 2022		
Loans measured at fair value	(296)	286

Sensitivity analysis – interest rate

The interest rate on loans measured at fair value is 31% (31 December 2022: 33%). Presented below is a sensitivity analysis for the discount rate applied to the fair-value measurement of loans:

PLN '000	**Profit or loss for the current period**	
	1pp increase in discount rate	**1pp decrease in discount rate**
31 Dec 2023		
Loans measured at fair value	45	(44)
31 Dec 2022		
Loans measured at fair value	130	(129)

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

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Real property	14,893	16,243
Other inventories	145	126
	15,038	16,369

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

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Carrying amount of property held at beginning of period	**16,243**	**20,295**
Carrying amount of property foreclosed	3,321	5,378
Carrying amount of property sold	(13)	(5,716)
Impairment losses	(4,610)	(3,689)
Currency translation differences on property valuation*	(48)	(25)
Carrying amount of property held at end of period	**14,893**	**16,243**

** Exchange differences on translating financial statements in currencies other than PLN.*

As at 31 December 2023, the inventory write-down was PLN 4,610 thousand (31 December 2022: PLN 3,689 thousand).

19. 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**	
	31 Dec 2023	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**
Property, plant and equipment	5,222	8,725	(4,234)	(4,983)	988	3,742
Intangible assets	-	-	(5,000)	(5,148)	(5,000)	(5,148)
Tax losses deductible in future periods	13,260	11,920	-	-	13,260	11,920
Trade and other receivables	-	-	(241)	(413)	(241)	(413)
Borrowings and other debt instruments	21,776	16,633	-	-	21,776	16,633
Employee benefit obligations	5,230	2,590	-	-	5,230	2,590
Provisions and liabilities	186	-	-	(109)	186	(109)
Investments in debt portfolios	-	-	(7,411)	(7,058)	(7,411)	(7,058)
Investments in loans	32,050	32,923	-	-	32,050	32,923
Derivative hedging instruments	-	-	(13,767)	(3,294)	(13,767)	(3,294)
Expected future outflows of income from investments in subsidiaries	-	-	(203,420)	(208,285)	(203,420)	(208,285)
Deferred tax assets/liabilities	77,724	72,791	(234,073)	(229,290)	(156,349)	(156,499)
Deferred tax assets offset against liabilities	(31,766)	(27,870)	31,766	27,870		
Deferred tax assets/liabilities in the statement of financial position	45,958	44,921	(202,307)	(201,420)	(156,349)	(156,499)

Change in temporary differences in the period

PLN '000	Net amount of income tax as at 1 Jan 2023	Change in temporary differences recognised in profit or loss for the period	Net amount of income tax as at 31 Dec 2023	Net amount of income tax as at 1 Jan 2022	Change in temporary differences recognised in profit or loss for the period	Net amount of income tax as at 31 Dec 2022
Property, plant and equipment	3,742	(2,754)	988	81	3,661	3,742
Intangible assets	(5,148)	148	(5,000)	(1,745)	(3,403)	(5,148)
Tax losses deductible in future periods	11,920	1,340	13,260	8,155	3,765	11,920
Trade and other receivables	(413)	172	(241)	(245)	(168)	(413)
Borrowings and other debt instruments	16,633	5,143	21,776	7,775	8,858	16,633
Employee benefit obligations	2,590	2,640	5,230	2,392	198	2,590
Provisions and liabilities	(109)	295	186	40	(149)	(109)
Investments in debt portfolios	(7,058)	(353)	(7,411)	(6,974)	(84)	(7,058)
Investments in loans	32,923	(873)	32,050	29,328	3,595	32,923
Expected future outflows of income from investments in subsidiaries	(208,285)	4,865	(203,420)	(168,325)	(39,960)	(208,285)
	(153,205)	10,623	(142,582)	(129,518)	(23,687)	(153,205)

PLN '000	Net amount of income tax as at 1 Jan 2023	Change in temporary differences recognised in other comprehensive income	Net amount of income tax as at 31 Dec 2023	Net amount of income tax as at 1 Jan 2022	Change in temporary differences recognised in other comprehensive income	Net amount of income tax as at 31 Dec 2022
Derivative hedging instruments	(3,294)	(10,473)	(13,767)	-	(3,294)	(3,294)
	(3,294)	(10,473)	(13,767)	-	(3,294)	(3,294)

The Group exercises control over the timing of temporary differences regarding subsidiaries, and thus recognizes deferred tax liabilities. These liabilities are based on estimates of future income tax payments (three years).

The Kruk Group assesses the recoverability of deferred tax assets based on its approved financial forecast for the following years.
The amount of deferred tax liabilities is affected by changes in expected future cash flows from investment companies to KRUK S.A. in the foreseeable future. The level of the cash flows depends on such factors as:

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

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

The sensitivity analysis of deferred tax shows the impact of changes in the assumptions for 2024–2026 on:

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

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

PLN '000

	debt financing at KRUK S.A. in 2024-2026 higher by PLN 300m	**debt financing at KRUK S.A. in 2024-2026 lower by PLN 300m**	**expenditure on debt portfolios at the KRUK Group in 2024-2026 higher by PLN 300m***	**expenditure on debt portfolios at the KRUK Group in 2024-2026 lower by PLN 300m***
31 Dec 2023				
Deferred tax liability	(31,088)	28,739	(21,035)	19,950

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

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

The Group takes advantage of the exemption under IAS 12 and does not recognise a deferred tax liability in respect of retained earnings in its related entities where it is able to control the timing of the reversal of temporary differences 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 31 December 2023 was PLN 3,727,864 thousand (as at 31 December 2022: PLN 3,676,475 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 (KRUK S.A.) and periods over which they can be utilised:

PLN '000	**Tax loss expiry date**	**31 Dec 2023**	**31 Dec 2022**
Tax loss for 2018	31 Dec 2023	-	10,791
Tax loss for 2019	31 Dec 2024	542	1,084
Tax loss for 2022	31 Dec 2027	3,697	-
		4,239	11,875
Applicable tax rate		19%	19%
Potential benefit of tax losses		805	2,256

Deferred tax assets of PLN 805 thousand (2022: PLN 2,256 thousand) were not included in the calculation of deferred tax as the probability of their use by the date determined in accordance with the applicable tax laws was uncertain.

20. Trade and other receivables

Trade receivables

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Short-term trade receivables	24,440	13,033
	24,440	13,033

Other receivables

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Taxes receivable (other than income tax)	38,265	24,606
Receivables under security deposits and bid bonds	7,502	8,405
Receivables under collected debts	12,809	7,666
Other receivables	115	115
Employee loans	163	248
Receivables for court fees and stamp duty	116	116
	58,970	41,156

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

For information on the Group's exposure to credit risk and currency risk as well as allowances for expected credit losses on receivables, see Note 30.

21. Cash and cash equivalents

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Cash in hand	118	128
Cash in current accounts	168,343	196,341
Term deposits	220,000	-
Cash proceeds from bond issues deposited in technical account at brokerage house*	-	5,691
	388,461	202,160

** Proceeds from the issue of Series AN2 bonds, credited in the Group's bank account after the reporting date, on 10 January 2023.*

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 30.

22. Other assets

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Expenses relating to future reporting periods	5,356	8,778
IT costs amortised over time	8,404	9,183
Insurance	2,092	2,580
	15,852	20,541

23. Equity

Share capital

	Ordinary shares	
	2023	**2022**
thousands of shares		
Number of shares as at 1 Jan	19,319	19,013
Issue of shares	-	306
Cancellation of shares	-	-
Number of fully-paid shares at end of period	19,319	19,319
PLN		
Par value per share	1.00	1.00
PLN '000		
Par value of share capital as at 1 Jan	19,319	19,013
Par value as at 31 Dec	19,319	19,319

Parent's shareholding structure

As at 31 December 2023, the share capital comprised 19,319 thousand registered shares with voting and dividend rights (31 December 2022:19,319 thousand registered shares with voting and dividend rights).

As at 31 Dec 2023	**Number of shares**	**Par value (PLN thousand)**	**Ownership interest (%)**
Shareholder			
Piotr Krupa[1]	1,750,373	1,750	9.06%
NN PTE[2]	2,763,000	2,763	14.30%
Allianz OFE and Allianz DFE[3]	2,359,127	2,359	12.21%
Generali OFE	1,624,510	1,625	8.41%
PZU OFE	1,400,000	1,400	7.25%
Vienna OFE[4]	1,130,788	1,131	5.85%
Other members of the Management Board	217,731	218	1.13%
Other shareholders	8,073,261	8,073	41.79%
	19,318,790	19,319	100%

As at 31 Dec 2022	**Number of shares**	**Par value (PLN thousand)**	**Ownership interest (%)**
Shareholder			
Piotr Krupa	1,809,050	1,809	9.36%
NN PTE[2]	2,763,000	2,763	14.30%
Allianz OFE	2,359,217	2,359	12.21%
PZU OFE	1,507,000	1,507	7.80%
Aegon OFE	1,140,500	1,141	5.90%
Other members of the Management Board	228,328	228	1.18%
Other shareholders	9,511,695	9,512	49.24%
	19,318,790	19,319	100%

[1] *Including shares held by Piotr Krupa directly and indirectly through Krupa Fundacja Rodzinna.*

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

[3] *Joint shareholding by Allianz OFE and Allianz DFE, managed by Allianz PTE.*

[4] *Renamed from Aegon OFE.*

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 2021–2024

On 16 June 2021, the Annual General Meeting of KRUK S.A. passed a resolution on setting the rules of an incentive scheme for 2021–2024, conditional increase in the Parent's share capital and issue of subscription warrants with the Parent 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 Parent's Articles of Association.

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

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

For details of the 2021–2024 Incentive Scheme, see the Directors' Reports on the operations of the KRUK Group for 2021 and 2022.

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

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On 5 July 2022, the Supervisory Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 1 subscription warrants for the fulfilment in 2021 of the conditions of the 2021–2024 Incentive Scheme. In line with that resolution, a total of 76,044 subscription warrants were awarded to eligible Management Board members in Tranche 1. The warrants were subscribed for by Management Board members on 29 July 2022.

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

In 2022, EPS grew by 42.27%, and on 17 July 2023, the Supervisory Board of KRUK S.A. passed a resolution to acknowledge that the condition set out in the 2021–2024 Incentive Scheme had been met for the purpose of issuing and offering Tranche 2 subscription warrants in view of fulfilment in 2022 of the conditions of the 2021–2024 Incentive Scheme.

Therefore, on 22 August 2023 the Parent's Management Board passed a resolution determining the list of persons other than Management Board members, who were eligible to subscribe for Tranche 2 subscription warrants for the fulfilment in 2022 of the conditions of the 2021–2024 Incentive Scheme, whereby a total of 109,292 subscription warrants to the eligible persons.

On 14 September 2023, the Supervisory Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 2 subscription warrants for the fulfilment in 2022 of the conditions of the 2021–2024 Incentive Scheme. In line with that resolution, a total of 76,044 subscription warrants were awarded to eligible Management Board members for 2022 in Tranche 2. The warrants were subscribed for by Management Board members on 20 September 2023. The table below shows the number of Tranche 1 and 2 warrants awarded to and subscribed for by each Management Board member.

Number of Tranche 1 warrants awarded to and subscribed for by Management Board members under the 2021–2024 Incentive Scheme

Name and surname	Number of Tranche 1 warrants awarded and acquired	Number of Tranche 2 warrants awarded and acquired
Piotr Krupa	22,812	22,812
Piotr Kowalewski	13,308	13,308
Adam Łodygowski	13,308	13,308
Urszula Okarma	13,308	13,308
Michał Zasępa	13,308	13,308

In the reporting period and as at the date of issue of this report, members of the Management Board of the Parent held no rights to KRUK S.A. shares other than the rights under the subscription warrants issued under the 2021-2024 Incentive Scheme, as shown above. Members of the Supervisory Board do not hold any subscription warrants issued under the 2021–2024 Incentive Scheme.

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Number of options	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Number of options priced under the 2021–2024 Incentive Scheme at the beginning of the reporting period*:	884,326	884,326
Number of options priced under the 2021–2024 Incentive Scheme during the reporting period*:	65,639	-
Number of options priced under the 2021–2024 Incentive Scheme at the end of the reporting period*:	949,965	884,326
Number of options forfeited under the 2021–2024 Incentive Scheme during the reporting period**:	12,150	18,804
Number of options exercised under the 2021–2024 Incentive Scheme during the reporting period:	-	-
Number of options exercisable under the 2021–2024 Incentive Scheme at the end of the reporting period:	-	-
Issue price of options in the 2021–2024 Incentive Scheme	**248.96**	**248.96**

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

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

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

In 2023, the average share price was PLN 394.32 (2022: PLN 282.29).

As at 31 December 2023 and 31 December 2022, the amount of liabilities under share-based payment transactions was PLN 0.

	2021–2024 Incentive Scheme
Weighted average fair value of options	248.96
Method of measuring the fair value of the options	The weighted average fair value of the options was determined based on the weighted average closing price of Company shares in the period 15 May – 15 June 2021.
Weighted average share price	305.40
Exercise price	248.96
Expected volatility	43%
Term	4 years
Expected volatility of dividend	4.38%
Risk-free rate, determined based on IRS interbank rates quoted by banks on the valuation date	1.70%

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

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

Measurement reserve (defined benefit plans)

Under Italian law, the Group is required to recognise, in accordance with IAS 19, provisions for termination compensation (*Trattamento di Fine Rapporto*, *TFR*) which are recognised as a defined benefit plan.

Exchange differences on translation of subsidiaries

Exchange differences on translating subsidiaries include exchange differences arising from the translation of financial statements of foreign operations in accordance with the policy described in Note 3.3.2.

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
InvestCapital Ltd.	(170,343)	26,839
Kruk Investimenti Srl	4,778	57
Kruk Italia	(2,670)	660
Kruk Deutschland GmbH	(401)	195
Kruk Espana S.L.	(2,175)	1,325
KRUK Romania S.r.l.	(3,554)	353
ItaCapital S.r.l.	(7,801)	(6,958)
KRUK Česká a Slovenská republika s.r.o.	(13,002)	1,532
ProsperoCapital S.à r.l.	125	(100)
Other	(1,254)	838
	(196,297)	24,741

The change relative to the comparative period is attributable to a change in currency exchange rates and an increase in assets.

24. Earnings per share

Basic earnings per share

As at 31 December 2023, basic earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 983,934 thousand (2022: PLN 804,982 thousand) and the weighted average number of shares in the reporting period of 19,319 thousand (2022: 19,136 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Net profit for period	984,201	805,018
Non-controlling interests	(267)	(36)
Net profit attributable to ordinary shareholders of the Parent	983,934	804,982

Weighted average number of ordinary shares

thousands of shares	***Note***	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Number of ordinary shares as at 1 Jan	*23*	19,319	19,013
Effect of cancellation and issue		-	123
Weighted average number of ordinary shares at end of reporting period		19,319	19,136
PLN			
Earnings per share		50.93	42.07

Dividend per share paid

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Dividend paid from profit and retained earnings	289,782	248,661
PLN		
Dividend per share	15.00	13.00

Diluted earnings per share

As at 31 December 2023, diluted earnings per share were calculated based on net profit attributable to owners of the Parent (holding ordinary shares) of PLN 983,934 thousand (2022: PLN 804,982 thousand) and the weighted average number of shares in the reporting period of 20,343 thousand (2022: 19,772 thousand). The amounts were determined as follows:

Weighted average number of ordinary shares (diluted)

thousands of shares	**31 Dec 2023**	**31 Dec 2022**
Weighted average number of ordinary shares at end of reporting period	19,319	19,136
Effect of issue of unregistered shares not subscribed for	1,024	636
Weighted average number of ordinary shares at end of reporting period (diluted)	20,343	19,772
PLN		
Earnings per share (diluted)	48.37	40.71

25. Borrowings, debt securities and leases

This note contains information on the Group's liabilities under 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 30.

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Non-current liabilities		
Secured borrowings	2,324,607	2,155,455
Liabilities under debt securities (unsecured)	2,773,264	1,308,234
Lease liabilities	40,213	40,463
	5,138,084	3,504,152
Current liabilities		
Secured borrowings	285,551	339,401
Liabilities under debt securities (unsecured)	77,938	73,781
Lease liabilities	29,594	28,460
	393,083	441,642

As at 31 December 2023, transaction costs reflected in the carrying amount were PLN 45,631 thousand (31 December 2022: PLN 16,726 thousand).

Realised and unrealised exchange rate differences affecting the financial liabilities were PLN 32,328 thousand in 2023 and PLN -890 thousand in 2022.

Changes in borrowings, debt securities and leases

PLN '000

	Changes in borrowings, debt securities and leases							
	As at 31 Dec 2023	**Disbursements**	**Repayments**	**Finance costs**	**Interest paid**	**Early termination/ currency translation of agreements**	**Translation differences**	**As at 31 Dec 2022**
Secured borrowings	2,610,158	2,578,622	(2,455,207)	146,957	(155,070)			2,494,856
Liabilities under debt securities (unsecured)	2,851,202	1,560,639	(65,000)	186,260	(212,712)			1,382,015
Lease liabilities	69,807	42,685	(37,729)	3,262	(3,293)	(3,985)	(56)	68,923
	5,531,167	4,181,946	(2,557,936)	336,479	(371,075)	(3,985)	(56)	3,945,794

PLN '000

	Changes in borrowings, debt securities and leases						
	As at 31 Dec 2022	Disbursements	Repayments	Finance costs	Interest paid	Early termination/ currency translation of agreements	As at 31 Dec 2021
Secured borrowings	2,494,856	2,381,102	(1,378,216)	94,507	(98,438)		1,495,902
Liabilities under debt securities (unsecured)	1,382,015	545,000	(467,926)	118,712	(118,530)		1,304,759
Lease liabilities	68,923	36,518	(33,795)	2,909	(2,878)	(2,191)	68,360
	3,945,794	2,962,620	(1,879,937)	216,128	(219,846)	(2,191)	2,869,021

Terms and repayment schedule of borrowings, debt securities and leases

PLN '000	Currency	Nominal interest rate	Maturity periods[1]	31 Dec 2023	31 Dec 2022
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0–2.95pp; 3M WIBOR + margin of 1.8–2.7pp; 1M EURIBOR + margin of 2.2–2.95pp	2024-2028	2,610,158	2,494,856
Liabilities under debt securities (unsecured)	PLN EUR	3M WIBOR + margin of 3.2–4.65pp; 4.00%-4.80%[2]; 3M EURIBOR + margin of 4.0–6.5pp	2024-2029	2,851,202	1,382,015
Lease liabilities	EUR/PLN CZK	3M WIBOR or 1M EURIBOR + margin of 2.73–4.58pp 3.00-11.26%	2024-2030	69,807	68,923
				5,531,167	3,945,794

[1] *Maturity of the last liability.*

[2] *Fixed interest rate.*

Repayment schedule for lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at 31 Dec 2023			
up to 1 year	32,406	2,812	29,594
from 1 to 5 years	42,202	1,989	40,213
	74,608	4,801	69,807

As at 31 Dec 2022			
up to 1 year	31,784	3,324	28,460
from 1 to 5 years	39,176	1,214	37,962
	70,960	4,538	66,422

Security over assets

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Registered pledge over purchased debt portfolios, with assignment of claims, financed with a credit facility, registered pledge over shares in Secapital S.r.l., registered pledge over investment certificates of Prokura NS FIZ, registered pledge over bonds of Itacapital S.rl	6,652,127	4,897,104
Property, plant and equipment used under lease contracts	17,186	17,096
	6,669,313	4,914,200

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

For a description of the security created, see Note 36.

Impact of IBOR reform

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

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

PLN '000

	31 Dec 2023	**31 Dec 2022**
Carrying amount of financial liabilities for which WIBOR is used as the benchmark		
Borrowings secured over the Group's assets	454,154	814,934
Liabilities under debt securities (unsecured)	2,159,898	1,382,015
Lease liabilities	7,922	13,771
Notional amount of hedging instruments for which WIBOR is used as the benchmark		
CIRS	1,750,000	940,000
IRS	190,000	255,000

26. Hedging instruments

Interest rate risk hedges

The Group's exposure to interest rate risk arises mainly from borrowings and debt securities issued (Notes 25 and 30.3).

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

The interest rate risk management policy covers:

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

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

In 2019–2022, the Group entered into 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. Interest payments are made every three months (interest period).

The contracts provide hedging against variability of cash flows generated by liabilities denominated in PLN due to changes in the 3M WIBOR interest rate. The Group 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.

In 2022, the Group entered into a EUR 210,000 thousand interest rate swap (IRS), paying a coupon based on a fixed EUR interest rate and receiving a coupon based on a variable EUR interest rate. The IRS provides a hedge against interest rate risk.

The purpose of the EUR contract was to provide a hedge against volatility of cash flows generated by liabilities in EUR due to changes in the 1M EURIBOR rate and to hedge interest payments under a credit facility.

The Group expects cash flows to be generated and to have an effect on its results in the period until 2024.

In 2023, The Group also entered into interest rate swaps (IRS) with a notional value of EUR 198,500 thousand, under which the Group pays a coupon based on a fixed interest rate and receives a coupon based on a variable interest rate on EUR-denominated debt covered by the transaction.

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.

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

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

Open outstanding IRS contracts held by the KRUK Group companies as at 31 December 2023, with a total volume amount of PLN 190,000 thousand and EUR 408,500 thousand:

Bank	Group company	Type of transaction	Notional amount	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	1.6500%	3M WIBOR	5 Sep 2019 to 6 Feb 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 115,000,000.00	1.5775%	3M WIBOR	4 Sep 2019 to 27 Sep 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 50,000,000.00	1.5775%	3M WIBOR	4 Sep 2019 to 28 Sep 2024
ING Bank Śląski S.A.	InvestCapital Ltd.	IRS	EUR 210,000,000.00	2.6535%	1M EURIBOR	29 Nov 2022 to 30 Jun 2027
DNB Bank ASA	KRUK S.A.	IRS	EUR 150,000,000.00	2.9640%	3M EURIBOR	10 May 2023 to 10 May 2028
DNB Bank ASA	KRUK S.A.	IRS	EUR 10,000,000.00	2.2550%	3M EURIBOR	21 Dec 2023 to 11 Dec 2028
ING Bank Śląski S.A.	InvestCapital Ltd.	IRS	EUR 38,500,000.00	2.3200%	1M EURIBOR	27 Dec 2023 to 30 Jun 2028

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

Open outstanding IRS contracts held by the KRUK Group companies as at 31 December 2022, with a total volume amount of PLN 255,000 thousand and EUR 210,000 thousand:

Bank	Group company	Type of transaction	Notional amount	Fixed rate	Variable rate	Term
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 30,000,000.00	1.65%	3M WIBOR	5 Sep 2019 to 27 Nov 2023
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	1.65%	3M WIBOR	5 Sep 2019 to 6 Feb 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 35,000,000.00	1.6050%	3M WIBOR	4 Sep 2019 to 12 Oct 2023
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 115,000,000.00	1.5775%	3M WIBOR	4 Sep 2019 to 27 Sep 2024
ING Bank Śląski S.A.*	KRUK S.A.	IRS	PLN 50,000,000.00	1.5775%	3M WIBOR	4 Sep 2019 to 28 Sep 2024
ING Bank Śląski S.A.	InvestCapital Ltd.	IRS	EUR 210,000,000.00	2.6535%	1M EURIBOR	29 Nov 2022 to 30 Jun 2027

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

In 2023, the Group entered into currency interest rate swaps (CIRS) with a total notional amount of PLN 810,000 thousand, under which the Group pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The purpose of the CIRS contracts is to:

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

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

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

Open outstanding CIRS contracts held by Kruk Group companies as at 31 December 2023, with a total volume amount of PLN 1,750,000 thousand:

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

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DNB Bank ASA	KRUK S.A.	CCIRS	PLN 25,000,000	2.05%	3M WIBOR	21 Dec 2022	27 Nov 2026
DNB Bank ASA	KRUK S.A.	CCIRS	PLN 75,000,000	2.49%	3M WIBOR	10 Jan 2023	26 Mar 2025
DNB Bank ASA	KRUK S.A.	CCIRS	PLN 120,000,000	2.02%	3M WIBOR	27 Jan 2023	26 Jan 2028
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 50,000,000	2.475%	3M WIBOR	25 Jul 2023	26 Jan 2028
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 50,000,000	2.435%	3M WIBOR	25 Jul 2023	7 Jun 2028
DNB Bank ASA	KRUK S.A.	CCIRS	PLN 75,000,000	2.61%	3M WIBOR	22 Sep 2023	29 Mar 2028
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 85,000,000	2.48%	3M WIBOR	31 Oct 2023	10 Dec 2026
ING Bank Śląski S.A.	KRUK S.A.	CCIRS	PLN 355,000,000	2.34%	3M WIBOR	31 Oct 2023	11 Oct 2029

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Open outstanding CIRS contracts held by Kruk Group companies as at 31 December 2022, with a total volume amount of PLN 940,000 thousand:

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

The transactions were designated for hedge accounting.

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

Currency risk hedges

The Group's exposure to currency risk arises mainly from investments in subsidiaries and financial liabilities measured in foreign currencies (Note 30.3).

The currency risk management policy outlines:

- the Group's currency risk management objectives;
- the key principles 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.

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

The Group does not expect the IBOR reform to have a material impact on hedging relationships in hedge accounting. The Group applied temporary specific exceptions to hedge accounting requirements in IFRS 9 in connection with the IBOR reform and assumed that it could continue hedging relationships. The notional amounts of the hedging instruments to which these exceptions apply are disclosed in Note 25.

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

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

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

In 2023, the Group entered into currency interest rate swaps (CIRS) with a total notional amount of PLN 810,000 thousand, under which the Group pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The purpose of the CIRS contracts is to:

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

As at 31 December 2023, Kruk Group companies held open outstanding CIRS contracts with a total notional amount of PLN 1,750,000 thousand (the contracts are listed in the '*Interest rate risk hedges'* section*).*

Amounts related to open position designated as hedging instruments

PLN '000

	Carrying amount/fair value of hedging instruments									
	31 Dec 2023				31 Dec 2022					
	Assets	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Assets**	**Liabilities**	**Nominal amount**	**Change in fair value used to determine ineffectiveness**	**Item in the statement of financial position**	**Hedge type**
Instrument type:										
IRS	4,954	-	190,000 (PLN)	(13,852)	18,806	-	255,000 (PLN)	5,003	Hedging instruments	Hedge of future cash flows
IRS	29	28,425	408,500 (EUR)	(44,152)	15,756	-	210,000 (EUR)	15,756	Hedging instruments	Hedge of future cash flows
CIRS	93,445	4,189	1,750,000 (PLN)	87,551	11,529	9,824	940,000 (PLN)	1,705	Hedging instruments	Hedge of future cash flows/Hedge of net investment in a foreign operation
	98,428	**32,614**		**29,547**	**46,091**	**9,824**		**22,464**		

PLN '000

Change in hedging instruments

	As at 31 Dec 2023	Finance costs	Interest paid/received	Measurement of instruments charged to capital reserves	As at 31 Dec 2022
IRS	(23,442)	-	(19,948)	(38,056)	34,562
CIRS	89,256	(995)	(54,616)	143,162	1,705
	65,814	(995)	(74,564)	105,106	36,267

PLN '000

Change in hedging instruments

	As at 31 Dec 2022	Finance costs	Interest paid/received	Measurement of instruments charged to capital reserves	As at 31 Dec 2021
IRS	34,562	-	(8,901)	29,660	13,803
CIRS	1,705	(67)	(15,440)	17,212	-
	36,267	(67)	(24,341)	46,872	13,803

PLN '000

	Amount of future cash flows as at 31 Dec 2023				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	(26,312)	(165,656)	-	-	-
variable payment PLN	26,312	165,656	-	-	-
IRS					
fixed payment EUR sale	(39,325)	(26,169)	(35,886)	(1,843,653)	-
variable payment EUR	39,325	26,169	35,886	1,843,653	-
CIRS					
fixed payment	(125,963)	(43,342)	(192,769)	(1,286,932)	(369,021)
variable payment	125,963	43,342	192,769	1,286,932	369,021

PLN '000

	Amount of future cash flows as at 31 Dec 2022				
	Less than 6 months	**6–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Instrument type:					
IRS					
fixed payment PLN sale	(7,663)	(73,879)	(198,211)	-	-
variable payment PLN	7,663	73,879	198,211	-	-
IRS					
fixed payment EUR sale	(12,744)	(17,827)	(33,414)	(1,000,234)	-
variable payment EUR	12,744	17,827	33,414	1,000,234	-
CIRS					
fixed payment	(33,706)	(32,546)	(136,073)	(966,860)	-
variable payment	8,125	7,790	91,652	998,585	-

PLN '000

Disclosure of the hedged item as at 31 Dec 2023

	Nominal amount of the hedged item	Change in the fair value of the hedged item used to determine ineffectiveness	Reserve for measurement of continuing hedges	Reserve (unsettled) for measurement of discontinued hedges
Hedge of future cash flows (interest rate risk)	190,000 (PLN)	(13,852)	7,180	-
Hedge of future cash flows (interest rate risk)	408,500 (EUR)	(44,152)	(28,396)	
Hedge of net investment in a foreign operation (currency risk)	-	-	-	4,082
Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)	1,750,000 (PLN)	87,551	68,177	-

PLN '000

Disclosure of the hedged item as at 31 Dec 2022

	Nominal amount of the hedged item	Change in the fair value of the hedged item used to determine ineffectiveness	Reserve for measurement of continuing hedges	Reserve (unsettled) for measurement of discontinued hedges
Hedge of future cash flows (interest rate risk)	255,000 (PLN)	5,003	18,806	-
Hedge of future cash flows (interest rate risk)	210,000 (EUR)	15,756	15,756	
Hedge of net investment in a foreign operation (currency risk)	-	-	-	4,082
Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)	940,000 (PLN)	1,705	(6,017)	-

PLN '000	1 Jan–31 Dec 2023			
Hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of net investment (currency risk)**	**Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)**	**Total hedge reserve**
Hedge reserve at beginning of period	34,562	4,082	(6,017)	32,627
Measurement of instruments charged to capital reserves	(38,245)	-	59,126	20,881
Cost of hedging*	-	-	83,040	83,040
Temporary differences/reversal of temporary differences	2,225	-	(12,698)	(10,473)
Amount reclassified to profit or loss during the period	(19,758)	-	(55,274)	(75,032)
- Interest income / (expense)	(19,758)	-	(995)	(20,753)
- Cost of hedging	-	-	(54,279)	(54,279)
Hedge reserve at end of period	(21,216)	4,082	68,177	51,043

PLN '000	**1 Jan–31 Dec 2022**			
Hedge reserve	**Hedge of future cash flows (interest rate risk)**	**Hedge of net investment (currency risk)**	**Hedge of future cash flows/Hedge of investment in a subsidiary (currency risk/interest rate risk)**	**Total hedge reserve**
Hedge reserve at beginning of period	13,803	4,082	-	17,885
Measurement of instruments charged to capital reserves	29,660	-	(19,995)	9,665
Cost of hedging*			37,109	37,109
Temporary differences/reversal of temporary differences			(3,294)	(3,294)
Amount reclassified to profit or loss during the period	(8,901)	-	(19,837)	(28,738)
- Interest income / (expense)	(8,901)	-	(67)	(8,968)
- Cost of hedging	-	-	(19,770)	(19,770)
Hedge reserve at end of period	34,562	4,082	(6,017)	32,627

*Cost of hedging

- the long leg (spread between the interest rates of PLN and EUR) in the measurement of the hedging instrument,
- the EUR/PLN cross-currency basis in the measurement of the hedging instrument.

The cost of hedging is determined as at the date of executing the hedging instrument and establishing the hedging relationship as the sum of net cash flows from interest on the hedging instrument, with cash flows in EUR being translated into PLN at the rate implied by the exchange of the CIRS notional principals at the transaction maturity date. The cost of hedging so determined is amortised until the hedging relationship expires.

27. Employee benefit obligations and provisions

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Salaries and wages payable	36,777	24,753
Social benefit obligations	19,879	20,983
Accrued holiday entitlements	14,136	8,017
Personal income tax	4,778	5,156
Special accounts	899	730
	76,469	59,639

Changes in accrued employee benefits

Changes in provisions for accrued holiday entitlements

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Amount at beginning of period	8,017	7,127
Increase	14,136	8,900
Use	(8,017)	(8,010)
Amount at end of period	14,136	8,017

28. Trade and other payables

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Trade payables	163,254	109,702
Other liabilities	41,488	29,231
Accrued expenses	6,193	5,932
Deferred income	6,690	6,293
Tax and duties payable	2,823	7,113
	220,448	158,271

Revenue recognised in the reporting period and included in the balance of contract liabilities at the beginning of the period was PLN -397 thousand.

For information on the exposure to currency risk and liquidity risk associated with liabilities, see Note 30.

29. Provisions

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Provisions for retirement gratuity payments	15,945	14,124
Provision for the loyalty scheme	10,871	11,746
Provision for tax inspection outcome	28,554	-
Other provisions	7,535	10,561
	62,905	36,431

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Changes in provisions

	Provisions for retirement gratuity payments	Provision for the loyalty scheme	Provision for tax inspection outcome	Other provisions
Carrying amount as at 1 Jan 2022	16,433	11,750	-	14,876
Increase / accrual	-	1,865	-	
Provision for possible differences relative to straight-line basis settlement				-
Use / reversal	(2,309)	(1,869)	-	
Reversal of provision for possible differences relative to straight-line basis settlement				(4,315)
Carrying amount as at 31 Dec 2022	14,124	11,746	-	10,561
Carrying amount as at 1 Jan 2023	14,124	11,746	-	10,561
Increase / accrual	2,202	402	28,554	
Use / reversal	(381)	(1,277)	-	
Reversal of provision for possible differences relative to straight-line basis settlement				(3,026)
Carrying amount as at 31 Dec 2023	15,945	10,871	28,554	7,535

In connection with the ongoing inspection of corporate income tax settlements for 2018–2020 conducted by the Customs and Tax Office in Kraków, Kruk S.A. has recognised a provision totalling PLN 28,554 thousand to settle a potential tax underpayment for the years under review and subsequent years, together with interest, in its profit or loss for 2023. The procedure may result in a change of the methodology for determining transfer prices between related parties with respect to the management and collection services performed by the Company for its related parties. For many years, the Company has consistently applied the comparable uncontrolled price (CUP) method to determine the consideration due for its management and collection services. The Customs and Tax Office has pointed to the need to change this approach to the cost-plus method, which seeks to cover the service cost and add an appropriate mark-up. As at the date of issue of these financial statements, the Company has not received the inspection report yet and the provision has been created as an estimate by the Management Board based on the scenario method.

30. 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.

30.1. Credit risk

Credit risk is the risk of financial loss to the Group if a business partner, indebted person 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.

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

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

Loans

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 a settlement agreement or a loan taken out at Novum Finance Sp. z o.o. 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.

For loans measured at amortised cost and at fair value, the loan-related credit risk is reflected in their measurement at the end of each reporting period, in accordance with section 3.4.1. 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.

Assessment of a client’s creditworthiness includes:

- Verification of the client with a credit reference agency;
- Verification of loan documents;
- Verification of the employment status;
- Verification of the client'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 business partner is evaluated before any payment and other contract terms are offered. The evaluation includes external ratings of the business partner, when available, and in some cases bank references. Each business partner is assigned a transaction limit which represents the maximum transaction amount for which no approval from the management board of individual companies 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 business partners
- - email messages are sent to business partners
- - telephone calls are made to business partners.

Over 60% of business 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 business partners.

The Group's exposure to credit risk mainly results from individual characteristics of each business partner. The Group's largest business partner generates 14% (2022: 10%) of the Group's revenue from credit management services. Receivables from the Group's largest business partner represented 2.3% of total trade receivables as at 31 December 2023 (31 December 2022: 4.2%). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises allowances for expected credit losses which represent its estimates of expected credit 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.

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

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).
- Indebted person:
    - credit amount repaid so far / amount of invoices repaid so far
    - time elapsed from the last payment made by the indebted person
    - region
    - indebted person's form of incorporation
    - indebted person's death or bankruptcy
    - indebted person's employment.
- Debt processing by the previous creditor:
    - availability of the indebted person's correct contact data
    - in-house collection – by the previous creditor's own resources
    - outsourced collection – debt management by third parties
    - court collection
    - bailiff collection.

Changes in credit risk assessment affect expected amounts of future cash flows which are used as a basis of valuation of 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 business partner for valuation, reference data matching, and the number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow projection.

Moreover, the 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 business partners and indebted persons, which includes, among other things:

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

The 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
- loyalty scheme.

Credit risk exposure

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

PLN '000	*Note*	31 Dec 2023	31 Dec 2022
Investments in debt portfolios	*17*	8,673,765	6,768,087
Loans	*17*	418,128	369,443
Hedging instruments	*26*	98,428	46,091
Trade and other receivables, excluding tax receivables	*20*	45,145	29,583
Cash and cash equivalents	*21*	388,461	202,160
		9,623,927	7,415,364

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

PLN '000	31 Dec 2023	31 Dec 2022
Poland	3,987,968	3,229,373
Romania	1,484,091	1,290,022
Italy	2,227,282	1,566,139
Spain	1,711,748	1,113,564
Other foreign markets	212,838	216,266
	9,623,927	7,415,364

Credit risk exposure – Investments in debt portfolios

PLN '000	31 Dec 2023	31 Dec 2022
Unsecured retail portfolios	7,601,776	5,798,186
Secured retail portfolios	281,025	281,444
Unsecured corporate portfolios	220,520	210,044
Secured corporate portfolios	570,444	478,413
	8,673,765	6,768,087

Credit risk exposure – Loans

PLN '000	Carrying amount as at 31 Dec 2023				
Risk classification	Basket 1	Basket 2	Basket 3	POCI loans	Total
Gross carrying amount of loans measured at amortised cost					
low	225,196	98,247	182,793	-	506,236
medium	35,429	12,583	59,089	507	107,608
high	2,214	908	15,693	-	18,815
not classified	290	146	44,749	816	46,001
	263,129	111,884	302,324	1,323	678,660
Allowance for expected credit losses					
low	13,683	19,788	130,355	-	163,826
medium	3,027	3,964	43,125	-	50,116
high	455	412	12,443	-	13,310
not classified	37	18	38,843	-	38,898
	17,202	24,182	224,766	-	266,150
Net carrying amount					
low	211,513	78,459	52,438	-	342,410
medium	32,402	8,619	15,964	507	57,492
high	1,759	496	3,250	-	5,505
not classified	253	128	5,906	816	7,103
	245,927	87,702	77,558	1,323	412,510

PLN '000	Carrying amount as at 31 Dec 2022				
Risk classification	Basket 1	Basket 2	Basket 3	POCI loans	Total
Gross carrying amount of loans measured at amortised cost					
low	181,244	103,390	58,243	-	342,877
medium	32,202	12,740	34,974	-	79,916
high	3,256	1,224	13,224	548	18,252
not classified	97	119	75,936	930	77,082
	216,799	117,473	182,377	1,478	518,127
Allowance for expected credit losses					
low	7,190	13,549	36,824	-	57,563
medium	2,177	3,314	24,774	-	30,265
high	398	450	10,174	-	11,022
not classified	4	3	62,267	-	62,274
	9,769	17,316	134,039	-	161,124
Net carrying amount					
low	174,054	89,841	21,419	-	285,314
medium	30,025	9,426	10,200	-	49,651
high	2,858	774	3,050	548	7,230
not classified	93	116	13,669	930	14,808
	207,030	100,157	48,338	1,478	357,003

The classification according to the risk segment is made at the moment of granting the loan.
The classification criterion for individual risk groups is the delay in payment of principal instalments:

- low-risk loans – the share of loans with delayed principal payments is 5%,
- medium-risk loans – the share of loans with delayed principal payments is 10%,
- high-risk loans - the share of loans with delayed principal payments is around 20%.

During the life of the loan, it is classified into baskets.

Credit risk exposure – Cash

The KRUK Group defines the cash concentration risk as the risk of material exposure to banks with ratings below and above BBB-.

As at 31 December 2023, the Group has 56.63% of cash deposited in a bank with an AA- rating (according to S&P).

PLN '000	**31 Dec 2023**	**31 Dec 2022**
Cash in accounts with banks rated below BBB – by Standard & Poor's*	16,613	20,612
Cash in accounts with banks rated BBB or higher – by Standard & Poor's*	371,730	181,420
Cash in hand	118	128
	388,461	202,160

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

Allowance for expected credit losses

The table below presents breakdown of trade and other receivables other than tax receivables into baskets as at the end of the reporting periods.

IFRS 9 classification	**Days past due**	**Expected credit losses as % of gross carrying amount**	**Carrying amount as at 31 Dec 2023**	**Carrying amount as at 31 Dec 2022**
Gross carrying amount of trade and other receivables, excluding tax receivables				
	<1 days		45,145	29,583
	1-90 days		177	169
	>90 days		1,613	1,613
			46,935	31,365
Allowance for expected credit losses				
	<1 days	0%	-	-
	1-90 days	0.70%	177	169
	>90 days	100%	1,613	1,613
			1,790	1,782
Net carrying amount				
	<1 days		45,145	29,583
	1-90 days		-	-
	>90 days		-	-
			45,145	29,583

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

PLN '000	1 Jan–31 Dec 2023				1 Jan–31 Dec 2022			
	Basket 1	**Basket 2**	**Basket 3**	**Total**	**Basket 1**	**Basket 2**	**Basket 3**	**Total**
Loss allowance as at 1 Jan	-	169	1,613	1,782	-	169	1,613	1,782
Loss allowance recognised in the period	-	38	-	38	-	-	-	-
Reversal of loss allowance	-	(30)	-	(30)	-	-	-	-
Use of loss allowance	-	-	-	-	-	-	-	-
Transfer between baskets	-	-	-	-	-	-	-	-
Loss allowance at end of period	**-**	**177**	**1,613**	**1,790**	**-**	**169**	**1,613**	**1,782**

The analysis of loans as at the end of the reporting periods is presented in Note 17. Investments under *Loans.*

Changes in the gross amount of loans measured at amortised cost:

	1 Jan–31 Dec 2023					1 Jan–31 Dec 2022				
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**	**Total**	**Basket 1**	**Basket 2**	**Basket 3**	**POCI loans**	**Total**
Gross carrying amount as at 1 Jan	216,799	117,473	182,377	1,478	518,127	205,064	65,222	96,234	1,866	368,386
Purchase	-	-	-	-	-	7,980	960	255	1,074	10,269
Change due to disbursement	207,860	62,555	26,914	-	297,329	185,467	78,550	36,816	-	300,833
Change due to repayment	(150,533)	(51,780)	(29,037)	(155)	(231,505)	(175,893)	(55,073)	(37,055)	(1,462)	(269,483)
Transfer from basket 1 to basket 2	(24,727)	24,727	-	-	-	(26,493)	26,493	-	-	-
Transfer from basket 1 to basket 3	(41,539)	-	41,539	-	-	(10,658)	-	10,658	-	-
Transfer from basket 2 to basket 1	12,057	(12,057)	-	-	-	3,524	(3,524)	-	-	-
Transfer from basket 2 to basket 3	-	(53,635)	53,635	-	-	-	(7,584)	7,584	-	-
Transfer from basket 3 to basket 1	16	-	(16)	-	-	9	-	(9)	-	-
Transfer from basket 3 to basket 2	-	2	(2)	-	-	-	7	(7)	-	-
Change in gross carrying amount in the reporting period	43,196	24,599	26,914	-	94,709	27,799	12,422	67,901	-	108,122
Gross carrying amount at end of period	**263,129**	**111,884**	**302,324**	**1,323**	**678,660**	**216,799**	**117,473**	**182,377**	**1,478**	**518,127**

Changes in the allowances for expected credit losses on loans measured at amortised cost are presented below.

	1 Jan–31 Dec 2023				1 Jan–31 Dec 2021			
PLN '000	**Basket 1**	**Basket 2**	**Basket 3**	**Total**	**Basket 1**	**Basket 2**	**Basket 3**	**Total**
Loss allowance as at 1 Jan	9,769	17,316	134,039	161,124	9,657	7,538	71,977	89,172
Loss allowance as at acquisition date	-	-	-	-	1,272	338	129	1,739
Change due to disbursement	13,981	14,523	18,061	46,565	8,669	12,557	23,075	44,301
Change due to repayment	(9,841)	(11,192)	(21,588)	(42,621)	(3,733)	(2,827)	(23,200)	(29,760)
Transfer from basket 1 to b asket 2	(5,478)	5,478	-	-	(3,489)	3,489	-	-
Transfer from basket 1 to basket 3	(7,394)	-	7,394	-	(3,707)	-	3,707	-
Transfer from basket 2 to basket 1	694	(694)	-	-	89	(89)	-	-
Transfer from basket 2 to basket 3	-	(36,100)	36,100	-	-	(4,959)	4,959	-
Transfer from basket 3 to basket 1	-	-	-	-	1	-	(1)	-
Transfer from basket 3 to basket2	-	-	-	-	-	4	(4)	-
Allowance for expected credit losses recognised in the reporting period	15,471	34,851	50,760	101,082	1,010	1,266	53,396	55,672
Loss allowance at end of period	**17,202**	**24,182**	**224,766**	**266,150**	**9,769**	**17,316**	**134,039**	**161,124**

As at 31 December 2023, the gross carrying amount of loans measured at amortised cost was PLN 678,660 thousand (PLN 518,127 thousand as at 31 December 2022). The Group recognised an allowance for expected credit losses on loans of PLN 266,150 thousand as at 31 December 2023(PLN 161,124 thousand as at 31 December 2022). The amount of the impairment loss is determined for individual expected loss recognition baskets, 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 the impairment loss covers 39.2% of the gross carrying amount of loans measured at amortised cost (at the end of 2022: 31.1%). The total amount of undiscounted expected credit losses on impaired financial assets due to credit risk was PLN 22,124 thousand in 2023 (2022: PLN 21,525 thousand).
For information on changes in allowances for expected credit losses on purchased debt portfolios measured at amortised cost, see Notes 5 and 17.

30.2. 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 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

As at 31 Dec 2023

PLN '000

	Carrying amount	Undiscounted contractual/estimated cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	8,673,765	18,397,175	1,380,421	1,306,615	2,526,899	5,683,065	7,500,175
Loans	418,128	665,411	221,218	161,854	167,354	64,425	50,560
Trade and other receivables, excluding tax receivables	45,145	45,145	45,145	-	-	-	-
Cash and cash equivalents	388,461	388,461	388,461	-	-	-	-
Secured borrowings	(2,610,158)	(3,058,255)	(2,052,098)	(121,700)	(218,025)	(666,432)	-
Unsecured bonds in issue	(2,851,202)	(4,012,618)	(159,822)	(160,134)	(445,792)	(2,626,389)	(620,481)
Lease liabilities	(69,807)	(74,608)	(16,857)	(15,549)	(20,107)	(19,309)	(2,786)
Trade and other payables	(204,742)	(204,742)	(204,742)	-	-	-	-
	3,789,590	12,145,969	(398,274)	1,171,086	2,010,329	2,435,360	6,927,468

**Cash flows based on estimates.*

As at 31 Dec 2022
PLN '000

	Carrying amount	Undiscounted contractual/estimated cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial assets and liabilities							
Investments in debt portfolios	6,768,087	13,764,663	1,109,132	1,072,582	1,979,975	4,371,950	5,231,024
Loans	369,443	490,554	188,793	107,084	113,785	52,962	27,930
Trade and other receivables, excluding tax receivables	29,583	29,583	29,583	-	-	-	-
Cash and cash equivalents	202,160	202,160	202,160	-	-	-	-
Secured borrowings	(2,494,856)	(3,095,404)	(152,934)	(86,748)	(256,371)	(2,549,374)	(49,977)
Unsecured bonds in issue	(1,382,015)	(1,928,811)	(67,451)	(132,349)	(175,021)	(1,195,002)	(358,988)
Lease liabilities	(68,923)	(70,960)	(17,216)	(14,568)	(24,141)	(12,321)	(2,714)
Trade and other payables	(138,933)	(138,933)	(138,933)	-	-	-	-
	3,284,546	9,252,852	1,153,134	946,001	1,638,227	668,215	4,847,275

Contractual cash flows were determined based on interest rates effective as at 31 December 2023 and 31 December 2022, 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 31 December 2023, the undrawn revolving credit facility limit available to the Group was PLN 768,121 thousand (31 December 2022: PLN 382,997 thousand). The limit is available until 31 December 2028.

The Group companies did not provide any guarantees to third parties.

For information on liquidity risk of hedging instruments, see Note 26.

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

30.3. 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 Group's objectives in terms of interest rate risk;
- methods of interest rate risk monitoring;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding the Group's permitted exposure to interest rate risk;
- principles of interest rate risk management at 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 31 December 2023, financial assets denominated in foreign currencies accounted for 57% of total assets, while liabilities denominated in foreign currencies represented 31% of total equity and liabilities (31 December 2022: 55% and 25%, respectively).

The Group uses financial instruments to hedge its interest rate risk and currency risk (see Notes 3.4.4 and 26).

Exposure to currency risk and sensitivity analysis

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

PLN '000	31 Dec 2023					31 Dec 2022				
	Exposure to currency risk									
	PLN	EUR	RON	CZK	Total	PLN	EUR	RON	CZK	Total
Trade and other receivables	-	3,961	12,320	-	**16,281**	-	3,357	47	-	**3,405**
Investments	-	245	1,410,385	11,783	**1,422,414**	-	272	1,216,137	16,618	**1,233,027**
Cash	127	3,845	19,348	909	**24,228**	38	2,615	1,853	2,109	**6,616**
Borrowings, debt securities and leases	-	(910,455)	-	-	**(910,455)**	-	(167,916)	-	-	**(167,916)**
Trade and other payables	(941)	(7,120)	(44,870)	-	**(52,932)**	(871)	(7,756)	(20,994)	-	**(29,622)**
Currency risk exposure – items affecting profit or loss	(814)	(909,523)	1,397,182	12,693	**499,537**	(833)	(169,428)	1,197,043	18,728	**1,045,510**
Trade and other receivables	-	19,650	29,819	(5,607)	**43,862**	-	5,856	35,613	(2,766)	**38,703**
Investments	-	3,856,629	53,682	134,059	**4,044,369**	-	2,600,799	58,983	138,799	**2,798,581**
Cash	-	87,611	18,781	5,931	**112,323**	-	109,960	14,690	8,859	**133,509**
Borrowings, debt securities and leases	-	(1,968,835)	(15,582)	(846)	**(1,985,263)**	-	(1,696,785)	(7,597)	(705)	**(1,705,087)**
Trade and other payables	-	(71,984)	(12,508)	(604)	**(85,096)**	-	(18,656)	(13,925)	(1,768)	**(34,349)**
Currency risk exposure – items affecting other comprehensive income	-	1,923,071	74,192	132,932	**2,130,195**	-	1,001,173	87,765	142,418	**1,231,357**
Exposure to currency risk	(814)	1,013,547	1,471,374	145,625	**2,629,732**	(833)	831,745	1,284,809	161,146	**2,276,866**
Hedge effect		(1,750,000)			**(1,750,000)**		(940,000)			**(940,000)**
Currency risk exposure after hedging	(814)	(736,453)	1,471,374	145,625	**879,732**	(833)	(108,255)	1,284,809	161,146	**1,336,866**

PLN '000	31 Dec 2023					31 Dec 2022				
	Analysis of sensitivity of currency risk exposure to +10% increase in exchange rates									
	PLN	**EUR**	**RON**	**CZK**	**Total**	**PLN**	**EUR**	**RON**	**CZK**	**Total**
Trade and other receivables	-	396	1,232	-	**1,628**	-	336	5	-	**341**
Investments	-	25	141,038	1,178	**142,241**	-	27	121,614	1,662	**123,303**
Cash	13	384	1,935	91	**2,423**	4	262	185	211	**662**
Borrowings, debt securities and leases	-	(91,045)	-	-	**(91,045)**	-	(16,792)	-	-	**(16,792)**
Trade and other payables	(94)	(712)	(4,487)	-	**(5,293)**	(87)	(776)	(2,099)	-	**(2,962)**
Effect on statement of profit or loss	(81)	(90,952)	139,718	1,269	**49,954**	(83)	(16,943)	119,705	1,873	**104,552**
Trade and other receivables	-	1,965	2,982	(561)	**4,386**	-	586	3,561	(277)	**3,870**
Investments	-	385,663	5,368	13,406	**404,437**	-	260,080	5,898	13,880	**279,858**
Cash	-	8,761	1,878	593	**11,232**	-	10,996	1,469	886	**13,351**
Borrowings, debt securities and leases	-	(196,883)	(1,558)	(85)	**(198,526)**	-	(169,679)	(760)	(71)	**(170,510)**
Trade and other payables	-	(7,198)	(1,251)	(60)	**(8,509)**	-	(1,866)	(1,393)	(177)	**(3,436)**
Effect on other comprehensive income	-	192,308	7,419	13,293	**213,020**	-	100,117	8,775	14,241	**123,133**
Exposure to currency risk	(81)	101,356	147,137	14,562	262,974	(83)	83,174	128,480	16,114	**227,685**
Hedge effect	-	(175,000)	-	-	(175,000)	-	(94,000)	-	-	(94,000)
Currency risk exposure after hedging	(81)	(73,644)	147,137	14,562	**87,974**	(83)	(10,826)	128,480	16,114	**133,685**

As at 31 December 2023, a 10% depreciation of PLN against EUR would, for example, result in a PLN 90,952 thousand decrease in profit and PLN 101,356 thousand increase in equity, while a 10% appreciation of PLN against EUR would result in a PLN 90,952 thousand increase in profit and PLN 101,356 thousand decrease in equity. As at 31 December 2023, a 10% depreciation of PLN against RON would, for example, result in a PLN 139,718 thousand increase in profit and PLN 147,137 thousand increase in equity, while a 10% appreciation of PLN against RON would result in a PLN 139,718 thousand decrease in profit and PLN 147,137 thousand decrease in equity. The analysis assumes that other variables, especially interest rates, remain equal.

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

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

PLN	**Average exchange rates**		**End of period (spot rates)**	
	1 Jan–31 Dec 2023	**1 Jan–31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**
EUR 1	4.5284	4.6883	4.3480	4.6899
USD 1	4.1823	4.4679	3.9350	4.4018
RON 1	0.9145	0.9501	0.8742	0.9475
CZK 1	0.1889	0.1910	0.1759	0.1942

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

Exposure to interest rate risk

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

PLN '000	**Carrying amount**	
	31 Dec 2023	**31 Dec 2022**
Fixed-rate financial instruments		
Financial assets	9,199,664	7,067,305
Financial liabilities	(383,995)	(317,046)
	8,815,669	6,750,259
Hedge effect (nominal amount)	(3,716,158)	(2,179,879)
	5,099,511	4,570,380
Variable-rate financial instruments		
Financial assets	424,263	348,059
Financial liabilities	(5,384,528)	(3,777,505)
	(4,960,265)	(3,429,446)
Hedge effect (nominal amount)	3,716,158	2,179,879
	(1,244,107)	(1,249,567)

Interest rate concentration risk is defined by the Group as the risk arising from significant exposure to individual financial instruments. The Group minimizes the impact of interest rate risk by entering into IRS and CIRS hedging transactions (note 26).

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	
	100 bps increase	**100 bps decrease**
31 Dec 2023		
Variable-rate financial assets	3,258	(3,258)
Variable-rate financial liabilities	(53,519)	53,519
31 Dec 2022		
Variable-rate financial assets	3,020	(3,020)
Variable-rate financial liabilities	(37,677)	37,677

30.4. Capital management

The Parent's 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 1 January to 31 December 2023, return on equity, computed as the ratio of net profit for the reporting period to equity less net profit, was 35.05% (2022:32.83%).

The Group's debt ratio, i.e. the ratio of total liabilities under borrowings, bonds in issue and leases to total equity, was 1.46 as at 31 December 2023(31 December 2022: 1.21).

As required under the Anti-Usury Act of 18 December 2020, the Management Board of the Parent aims to maintain the share capital of lending institutions in the KRUK Group at the minimum level of PLN 1,000 thousand.

In the reporting period from 1 January to 31 December 2023, there were no changes in the Group's capital management policy.

31. Fair values

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	31 Dec 2023		31 Dec 2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets and liabilities measured at fair value				
Hedging instruments (IRS)	(23,442)	(23,442)	34,562	34,562
Hedging instruments (CIRS)	89,256	89,256	1,705	1,705
Loans	5,618	5,618	12,440	12,440
	71,432	71,432	48,707	48,707
Financial assets and liabilities other than measured at fair value				
Investments in debt portfolios	8,673,765	8,827,759	6,768,087	6,358,969
Loans	412,510	418,318	357,003	346,876
Trade and other receivables, excluding tax receivables	45,145	45,145	29,583	29,583
Trade and other payables	(204,742)	(204,742)	(138,933)	(138,933)
Secured borrowings	(2,610,158)	(2,622,718)	(2,494,856)	(2,498,822)
Liabilities under debt securities (unsecured)	(2,851,202)	(2,869,113)	(1,382,015)	(1,366,416)
	3,465,318	3,594,649	3,138,869	2,731,257

Interest rates used for fair value estimation

	31 Dec 2023	**31 Dec 2022**
Investments in debt portfolios*	2.55%-65.08%	3.28%-70.28%
Loans	17.67%-45.83%	10.20%-57.02%
Secured borrowings	6.05%-8.75%	4.08%-9.78%

** Applicable to 99% of debt portfolios.*

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

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

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

In 2022−2023, no transfers were made between the levels.

Hierarchy of financial instruments – Level 1

PLN '000	Level 1	
	Carrying amount	**Fair value**
As at 31 Dec 2022		
Liabilities under debt securities (unsecured)	(1,382,015)	(1,366,416)
As at 31 Dec 2023		
Liabilities under debt securities (unsecured)	(2,851,202)	(2,869,113)

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

Hierarchy of financial instruments – Level 2

PLN '000	Level 2	
	Carrying amount	**Fair value**
As at 31 Dec 2022		
Hedging instruments (IRS)	34,562	34,562
Hedging instruments (CIRS)	1,705	1,705
As at 31 Dec 2023		
Hedging instruments (IRS)	(23,442)	(23,442)
Hedging instruments (CIRS)	89,256	89,256

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

Hierarchy of financial instruments – Level 3

PLN '000	Level 3	
	Carrying amount	**Fair value**
As at 31 Dec 2022		
Investments in debt portfolios	6,768,087	6,358,969
Loans	369,443	359,316
Trade and other receivables, excluding tax receivables	29,583	29,583
Secured borrowings	(2,494,856)	(2,498,822)
Trade and other payables	(138,933)	(138,933)
As at 31 Dec 2023		
Investments in debt portfolios	8,673,765	8,827,759
Loans	418,128	423,936
Trade and other receivables, excluding tax receivables	45,145	45,145
Secured borrowings	(2,610,158)	(2,622,718)
Trade and other payables	(204,742)	(204,742)

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

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

The fair value of loans was determined based on the projection of expected cash flows.

The fair value of financial liabilities under borrowings is determined on the basis of future cash flows from the executed transactions.

The Group uses Level 3 inputs to determine the fair value of trade and other receivables, excluding receivables on account of taxes as well as trade and other payables. Due to their short-term nature, the carrying amount was assumed to be equal to the fair value.

32. Related-party transactions

Related-party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Remuneration of the management personnel - Management Board

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

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Base pay/ managerial contract (gross)	7,670	7,388
Additional benefits (incl. social security contributions)	206	99
Share-based payments	21,951	27,694
	29,827	35,181

Remuneration of members of the Supervisory Board

Remuneration of members of the Parent's Supervisory Board:

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Base pay (gross)	1,226	1,151
Additional benefits	18	22
	1,244	1,173

Other transactions with the management personnel

As at 31 December 2023, members of the Management Board and persons closely related to them jointly held 10.2% of the total voting rights at the Parent's General Meeting (31 December 2022: 10.5%).

In 2023 and 2022, there were no material transactions with close family members of the Group's key management personnel.

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

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

33. 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	
31 Dec 2003	226
31 Dec 2004	789
31 Dec 2005	354
31 Dec 2006	172
31 Dec 2007	587
31 Dec 2008	91
31 Dec 2010	257
31 Dec 2011	889
31 Dec 2012	2,346
31 Dec 2013	2,578
31 Dec 2014	7,335
31 Dec 2015	13,332
31 Dec 2016	7,702
31 Dec 2017	10,147
31 Dec 2018	8,118
31 Dec 2019	9,658
31 Dec 2020	(1,156)
31 Dec 2021	18,576
31 Dec 2022	27,694
31 Dec 2023	21,951
Total	131,646

The management stock option plan is described in Note 23.

34. Auditor's fees

Auditor's fees are presented below:

PLN '000, net	31 Dec 2023	31 Dec 2022
Audit of financial statements	2,518	2,226
Other assurance services, including review of financial statements	700	504
	3,218	2,730

35. Other notes

35.1. Notes to the consolidated statement of cash flows

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

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Change in investments in debt portfolios in the statement of financial position	(1,905,678)	(1,667,911)
Effect of exchange differences on translating foreign operations	(221,108)	59,548
Change in investments in debt portfolios in the statement of cash flows	(2,126,786)	(1,608,363)

PLN '000	**1 Jan–31 Dec 2023**	**1 Jan–31 Dec 2022**
Change in provisions in the statement of financial position	26,474	(6,629)
Provision for tax inspection outcome	(28,554)	-
Change in provisions in the statement of cash flows	(2,080)	(6,629)

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

Impact of inflation on the business of the Group

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

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

Russia's invasion of Ukraine

Russia's aggression against Ukraine started on 24 February 2022. The KRUK Group does not hold any assets in Ukraine or Russia, nor does it carry out any business activity in those countries.

With no operations conducted in Ukraine or Russia, the Group expects the implications of the conflict for its operations will be indirect and limited.

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

35.3. Management of climate and environmental risks

As part of the ESG strategy integral to its business strategy, the KRUK Group has set a general course of action and, wherever possible, specific objectives pertaining to its environmental impact. These objectives are based on the UN Sustainable Development Goals and on the European Green Deal.

Under the environmental policy implemented in 2021 and reviewed annually, the Group has committed to adopt a conscious approach to managing the organisation's environmental and climate impact area. Despite limited adverse impacts of its operations, the KRUK Group is able to control its own emissions and emissions generated along its value chain, actively contribute to raising awareness of the need to protect the environment among its various stakeholder groups, and examine the impact of potential climate risks on its operations and assets.

In line with the Scope 1 and Scope 2 guidance of GHG Protocol, an action plan has been implemented in each country where the KRUK Group is present to achieve 70% reduction in carbon emissions by 2040, including by improving the efficiency of the car fleet, using renewable energy sources, and cutting energy consumption in office buildings. Given the new obligations imposed by the Corporate Sustainable Reporting Directive, the KRUK Group intends to meet the Scope 3 objectives of GHG Protocol with respect to its business model and include its value chain in the calculations. In 2023, the Group developed a model to measure the organisation's Scope 3 emissions, aligned with its business model.

In 2023, a study was carried out to examine selected potential climate and environmental risks associated directly with KRUK's operations or operating regions. It was carried out jointly with local experts, based on maps predicting climate change and its effects. In 2024, the identified risks will be covered by the Group's existing non-financial risk management system. Climate risks that could result in business disruption or lack of access to the organisation's resources will be added to already defined operational risks, slightly affecting their previous assessment. However, climate risks not previously identified within the non-financial risk management system have been defined and will be covered by the system as new risks starting from 2024.

At this stage, no items of the statement of financial position have been identified that could be significantly affected by the examined climate risks. However, in the context of a review of the secured portfolios, given the short property management period (usually not exceeding 18 months for each property), relevant controls will be put in place, allowing the Group to determine whether a discount would be required affecting total assets if any unpredictable phenomena were to occur in the future.

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36. Contingent liabilities and security created over the Group's assets

KRUK Group's assets pledged as security

Security created over the Group's assets as at 31 December 2023 is presented below.

Type	Beneficiary	Amount	Expiry date	Terms and conditions
Guarantees provided/promissory notes issued				
Surety for PROKURA NFW FIZ's liabilities under the revolving credit facility of 2 July 2015, as amended, between PROKURA NFW FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 180,000 thousand	No later than 3 July 2030	Prokura NFW FIZ's failure to pay amounts owed to the bank under the revolving credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	Until the derivative transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of 13 June 2013, as amended
Surety for InvestCapital LTD's liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 54,900 thousand*	No later than 31 July 2027	InvestCapital LTD's failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of 21 June 2018 to the master agreement on the procedure for execution and settlement of treasury transactions

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Surety for liabilities of InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NFW FIZ under the revolving multi-currency credit facility agreement of 3 July 2017, as amended, between KRUK S.A., InvestCapital Ltd, Kruk Romania S.R.L., Kruk Espana S.L.U. and PROKURA NFW FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A., and PEKAO S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A. PEKAO S.A.	EUR 862,500 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of 7 February 2019
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 21 September 2021 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 24,552 thousand	No later than 20 September 2029	PROKURA NFW FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 14 December 2021 between PROKURA NFW FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 51,480 thousand	No later than 13 December 2029	PROKURA NFW FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NFW FIZ's liabilities towards Pekao S.A. under the overdraft facility agreement of 1 February 2022 between PROKURA NFW FIZ, KRUK S.A. and Pekao S.A.	Pekao S.A.	PLN 120,000 thousand	No later than 31 January 2031	Prokura NFW FIZ's failure to pay amounts owed to the bank under the overdraft facility agreement

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Surety for PROKURA NFW FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 22 August 2022 between PROKURA NFW FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 59,400 thousand	No later than 21 August 2030	PROKURA NFW FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for InvestCapital Ltd's obligations to BANKINTER S.A. of Madrid, under the direct debit collection management contract between BANKINTER S.A. and InvestCapital Ltd. dated 7 July 2022.	BANKINTER S.A.	EUR 1,600 thousand	Until all obligations under the direct debit collection management contract of 7 July 2022 are satisfied.	InvestCapital Ltd's failure to pay amounts due to the Bank under the direct debit collection management contract of 7 July 2022.
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 180,000 thousand	No later than 15 January 2024	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on 22 September 2023
Corporate guarantee provided by KRUK S.A. to InvestCapital Ltd.	InvestCapital Ltd.	PLN 60,000 thousand	No later than 10 January 2024	The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who have the right to challenge the cancellation of shares which took place on 14 September 2023
Guarantees obtained				
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 325 thousand and PLN 245 thousand	No later than 30 December 2024	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee

* the amount of the guarantee depends on the limit available to InvestCapital Ltd, the limit as of 31 December 2023 is 0.

Security created over the Group's assets as at 31 December 2022 is presented below:

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Type	Beneficiary	Amount	Expiry date	Terms and conditions
Guarantees provided/promissory notes issued				
Surety for PROKURA NS FIZ's liabilities under the revolving credit facility of 2 July 2015, as amended, between PROKURA NS FIZ, KRUK S.A. and mBank S.A.	mBank S.A.	PLN 119,700 thousand	No later than 3 July 2030	Prokura NS FIZ’s failure to pay amounts owed to the bank under the revolving credit facility agreement
Blank promissory note	Santander Bank Polska S.A.	PLN 162,398 thousand	Until the derivative transactions are settled and the bank’s claims thereunder are satisfied	KRUK S.A.’s failure to repay its liabilities under treasury transactions made on the basis of the master agreement on the procedure for execution and settlement of treasury transactions of 13 June 2013, as amended
Surety for InvestCapital LTD’s liabilities under the transactions executed under the master agreement between KRUK S.A., InvestCapital LTD and Santander Bank Polska S.A.	Santander Bank Polska S.A.	PLN 54,900 thousand	No later than 31 July 2027	InvestCapital LTD’s failure to repay its liabilities under treasury transactions made on the basis of Annex 3 of 21 June 2018 to the master agreement on the procedure for execution and settlement of treasury transactions
Surety for PROKURA NS FIZ's liabilities towards ING Bank Śląski S.A. under the credit facility agreement of 20 December 2018, as amended, between PROKURA NS FIZ, KRUK S.A. and ING Bank Śląski S.A.	ING Bank Śląski S.A.	PLN 300,000 thousand	No later than 20 May 2031	Prokura NS FIZ’s failure to pay amounts owed to the bank under the credit facility agreement

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Surety for InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S. L. U. and PROKURA NS FIZ's liabilities under the revolving multi-currency credit facility agreement of 3 July 2017, as amended, between Kruk S.A., InvestCapital Ltd, Kruk Romania S. R. L., Kruk Espana S.L.U. and PROKURA NS FIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and PKO BP S.A. and Bank Handlowy w Warszawie S.A.	DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	EUR 589,500 thousand	Until all obligations under the multi-currency revolving credit facility agreement are satisfied	Borrower's failure to pay amounts due under the multicurrency revolving credit facility agreement
Blank promissory note	mBank S.A.	PLN 7,500 thousand	Until the transactions are settled and the bank's claims thereunder are satisfied	KRUK S.A.'s failure to pay its liabilities under financial market transactions executed under the master agreement of 7 February 2019
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 21 September 2021 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 33,480 thousand	No later than 20 September 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 14 December 2021 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 68,640 thousand	No later than 13 December 2029	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for PROKURA NS FIZ's liabilities towards Pekao S.A. under the overdraft facility agreement of 1 February 2022 between PROKURA NS FIZ, KRUK S.A. and Pekao S.A.	Pekao S.A.	PLN 120,000 thousand	No later than 31 January 2031	Prokura NS FIZ's failure to pay amounts owed to the bank under the overdraft facility agreement

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Surety for PROKURA NS FIZ's liabilities towards PKO BP S.A. under the non-renewable working capital facility agreement of 22 August 2022 between PROKURA NS FIZ, KRUK S.A. and PKO BP S.A.	PKO BP S.A.	PLN 75,240 thousand	No later than 21 August 2030	PROKURA NS FIZ's failure to pay amounts owed to the bank under the non-renewable working capital facility agreement
Surety for InvestCapital Ltd's obligations to BANKINTER S.A. of Madrid, under the direct debit collection management contract between BANKINTER S.A. and InvestCapital Ltd. dated 7 July 2022.	BANKINTER S.A.	EUR 1,600 thousand	Until all obligations under the direct debit collection management contract of 7 July 2022 are satisfied.	InvestCapital Ltd's failure to pay amounts due to the Bank under the direct debit collection management contract of 7 July 2022.
Guarantees obtained				
Guarantee issued by Santander Bank Polska S.A. for KRUK S.A.'s liabilities under the rental agreement	DEVCo Sp. z o.o.	EUR 300 thousand and PLN 215 thousand	No later than 30 December 2023	KRUK S.A.'s failure to repay its liabilities under the rental agreement secured with the guarantee

Credit sureties or guarantees, security pledges

On 23 November 2023, Kruk S.A. and its subsidiaries: InvestCapital Ltd., KRUK Romania S.R.L., PROKURA NFW FIZ and KRUK Espana S.L.U. (the borrowers) executed an agreement amending the revolving multi-currency credit facility agreement of 3 July 2017, as amended, with the bank syndicate comprising DNB Bank ASA of Oslo, ING Bank Śląski S.A. of Katowice, Santander Bank Polska S.A. of Warsaw, PKO BP S.A. of Warsaw and Bank Handlowy w Warszawie S.A. of Warsaw (the Lenders) (the Amendment Agreement). The Amendment Agreement provided for an increase in the facility limit up to EUR 575,000 thousand and accession of another bank – Bank Polska Kasa Opieki S.A. – to the syndicate of Lenders. In accordance with the Amendment Agreement, KRUK S.A., KRUK Romania S.R.L. and Kruk España S.L.U. issued a surety for all liabilities of the Borrowers under the revolving multi-currency credit facility agreement, and the Borrowers signed relevant amendments to the pledge agreements reflecting the Amendment Agreement. The contents of the declarations on submission to enforcement made by KRUK S.A. and Prokura NFW FIZ on 23 August 2023 remained unchanged.

To secure liabilities under the revolving multi-currency credit facility agreement of 3 July 2017, as amended:

- on 10 January, 22 March, 15 June 2023 and, after the reporting date, on 12 July 2023 InvestCapital LTD and the Lenders signed agreements under Spanish law creating pledges over debt portfolios purchased by InvestCapital LTD on the Spanish market;
- on 18 January 2023, additional bonds issued by KRUK Investimenti S.R.L. were pledged pursuant to the agreement of 24 January 2022 made between InvestCapital LTD and DNB Bank ASA, as the security agent, under Italian law, creating pledges over bonds issued by KRUK Investimenti S.R.L. and the bank account of InvestCapital LTD to which proceeds from the bonds are paid;

- on 1 February 2023 and after the reporting date, on 2 February 2024, InvestCapital LTD and DNB Bank ASA, acting as the security agent, signed agreements under Romanian law creating pledges over debt portfolios purchased by InvestCapital LTD on the Romanian market;
- on 2 February 2023, InvestCapital LTD, Kruk Romania S.R.L. and DNB Bank ASA, acting as the security agent, signed an annex under Romanian law to the agreement creating pledges over bank accounts held by Kruk Romania S.R.L.;
- on 20 February 2023, additional bonds issued by ItaCapital S.r.l. were pledged pursuant to an agreement of 3 July 2017 made between InvestCapital LTD and DNB Bank ASA, as the security agent, under Italian law, creating pledges over bonds and the bank account of InvestCapital LTD to which proceeds from the bonds are paid;
- on 22 May 2023, Prokura NFW FIZ and DNB Bank ASA, acting as the security agent, signed an agreement under Polish law creating a registered pledge over debt portfolios purchased by Prokura NS FIZ on the Polish market;
- on 25 October 2023, Kruk Romania S.R.L. and DNB Bank ASA, acting as the security agent, signed an agreement under Romanian law establishing pledges over debt portfolios purchased by Kruk Romania S.R.L. on the Romanian market.

As at 31 December 2023, the value of the security created in favour of the Lenders was PLN 5,252,665 thousand.

In order to secure the repayment of Prokura NFW FIZ's liabilities under the up to PLN 52,800 thousand non-revolving working capital facility agreement of 22 August 2022 between Prokura NFW FIZ, KRUK S.A. and PKO BP S.A.:

- On 10 February 2023, Prokura NFW FIZ and PKO BP S.A. signed an agreement to create a registered pledge over a set of rights (debt portfolios owned by Prokura NFW FIZ). The pledge was created up to the maximum amount of PLN 79,200 thousand.

As at 31 December 2023, the value of all portfolios pledged in favour of PKO BP S.A. was PLN 135,036 thousand.

In order to secure the repayment of Prokura NFW FIZ's liabilities under the PLN 120,000 thousand revolving credit facility agreement of 2 July 2015, as amended, between Prokura NFW FIZ, KRUK S.A. and mBank S.A. of Warsaw:

- On 20 March 2023, Prokura NFW FIZ entered into an agreement with mBank S.A. to create a registered pledge over a set of rights (debt portfolios owned by Prokura NFW FIZ). The pledge was created up to the maximum amount of PLN 180,000 thousand;
- after the reporting date, on 11 January 2024, Prokura NFW FIZ entered into an agreement with mBank S.A. to create a registered pledge over a set of rights (debt portfolios owned by Prokura NFW FIZ). The pledge was created up to the maximum amount of PLN 210,000 thousand.

On 19 December 2023, an agreement amending the revolving credit facility agreement of 2 July 2015, as amended, was executed between Prokura NFW FIZ, KRUK S.A. and mBank S.A. of Warsaw. The facility limit was increased up to PLN 140,000 thousand and the availability period of the facility was extended until 18 December 2028.

Accordingly, after the reporting date:

- on 10 January 2024, an agreement amending the financial pledge agreement of 2 July 2015 was executed between Prokura NFW FIZ and mBank S.A. under which the security period was extended until 18 December 2031;
- on 10 January 2024, an agreement amending the surety agreement of 2 July 2015 was executed between mBank S.A. and KRUK S.A. under which the surety amount was increased to PLN 210,000 thousand and the surety expiry date was extended until 18 December 2031;
- on 11 January 2024, KRUK S.A. provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 210,000 thousand, which will expire on or before 19 December 2031;
- on 12 January 2024, Prokura NFW FIZ provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 210,000 thousand, which will expire on or before 19 December 2031;
- on 12 January 2024, an agreement amending the agreement on registered pledge over a set of rights of 20 March 2023 was executed between Prokura NFW FIZ and mBank S.A. under which the maximum secured amount was increased to PLN 210,000 thousand.

  As at 31 December 2023, the value of all portfolios pledged in favour of mBank S.A. was PLN 173,604 thousand.

On 27 February 2023, the credit facility agreement between KRUK S.A., its subsidiary Prokura NFW FIZ and ING Bank Śląski S.A. of 20 December 2018, as amended, was terminated by mutual agreement between the parties. Following the termination of the credit facility agreement:

- on 27 February 2023, the surety for up to PLN 300,000 thousand provided by KRUK S.A. to secure repayment of the borrower's (Prokura NFW FIZ's) liabilities expired;
- on 27 February 2023, the following pledge agreements were terminated by mutual agreement between the parties:
  - the agreement of 4 January 2019 between Prokura NFW FIZ and ING Bank Śląski S.A. creating a registered and financial pledge over receivables under a bank account agreement;
  - the agreement of 20 December 2018 between KRUK S.A. and ING Bank Śląski S.A. creating a financial pledge over receivables under a bank account agreement;
- on 2 June and 6 June 2023, based on decisions issued by the District Court for Wrocław–Fabryczna in Wrocław, 7th Commercial Division, the registered pledges created over debt portfolios held by Prokura NFW FIZ and over Prokura NFW FIZ's bank account were deleted from the pledge register.

On 2 June 2023, a revolving credit facility agreement was executed between KRUK S.A. and Alior Bank S.A. The facility of up to PLN 50,000 thousand was granted until 1 June 2025. In order to secure the repayment of KRUK S.A.'s liabilities under the agreement:

- on 21 June 2023, KRUK S.A. provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 75m, which will expire on or before 1 June 2028;
- on 21 July 2023, an agreement was executed between KRUK S.A. and Alior Bank S.A. creating a financial and registered pledge over investment certificates. The registered pledge was created up to the maximum amount of PLN 75,000 thousand.
- On 31 October 2023, all amounts due under the credit facility agreement executed between KRUK S.A. and Bank Pocztowy S.A. on 19 December 2018 were fully prepaid. Under the agreement, the

final repayment date was 18 December 2023. Following full repayment of the credit facility, the security interests, i.e. the agreement creating a financial pledge over investment certificates and the agreement creating a financial pledge over receivables under a bank account agreement, were released.

On 27 November 2023, an agreement amending the revolving credit facility agreement of 8 April 2011, as amended, was executed between KRUK S.A. and Santander Bank Polska S.A. of Warsaw under which the loan facility repayment dates were extended. Current repayment dates:

- the facility of PLN 120,000 thousand or its EUR equivalent – the availability end date and final repayment date set for 31 October 2028,
- the additional facility of PLN 105,000 thousand or its EUR equivalent – the availability end date and final repayment date set for 30 October 2026.

On 28 December 2023, a revolving credit facility agreement was executed between KRUK S.A. and Alior Bank S.A. The facility of up to PLN 100,000 thousand was granted until 31 December 2028. In order to secure the repayment of KRUK S.A.'s liabilities under the agreement, after the reporting date:

- on 11 January 2024, KRUK S.A. provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 150,000 thousand, which will expire on or before 31 December 2028.
- on 14 February 2024, an agreement was executed between KRUK S.A. and Alior Bank S.A. creating a financial and registered pledge over investment certificates. The registered pledge was created up to the maximum amount of PLN 150,000 thousand.

After the reporting date, on 8 February 2024, a non-revolving working capital facility agreement was executed between Prokura NFW FIZ, KRUK S.A. and PKO BP S.A. of Warsaw. The facility of up to PLN 39,300 thousand was granted until 7 February 2029. In order to secure the repayment of Prokura NFW FIZ's liabilities under the agreement:

- on 8 February 2024, an agreement amending the agreement creating a financial pledge over a bank account of 5 October 2021 was executed between Prokura NFW FIZ and PKO BP S.A.,
- on 8 February 2024, an agreement amending the agreement creating a financial pledge over a bank account of 5 October 2021 was executed between KRUK S.A. and PKO BP S.A.,
- on 8 February 2024, a surety agreement was executed between KRUK S.A. and PKO BP S.A. under which KRUK S.A. provided a surety for the borrower's liabilities of up to PLN 58,950 thousand,
- on 14 February 2024, Prokura NFW FIZ and KRUK S.A. provided declarations on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 58,950 thousand, which will expire on or before 7 February 2032.

After the reporting date, on 28 February 2024, a revolving working capital facility agreement was executed between KRUK S.A. and VeloBank S.A. of Warsaw. The facility of up to PLN 118,000 thousand was granted until 28 February 2029. In order to secure the repayment of KRUK S.A.'s liabilities under the agreement, after the reporting date:

- on 7 March 2024, KRUK S.A. provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 177,000 thousand, which will expire on or before 1 March 2031,

- on 7 March 2024, an agreement was executed between KRUK S.A. and VeloBank S.A. creating a financial and registered pledge over investment certificates. The registered pledge was created up to the maximum amount of PLN 177,000 thousand.

After the reporting date, on 28 February 2024, an agreement amending the non-revolving working capital facility agreement of 22 December 2021 was executed between KRUK S.A. and VeloBank S.A. of Warsaw, extending the availability period of the facility until 31 December 2028. In order to secure the repayment of liabilities arising under the agreement, after the reporting date, on 7 March 2024, KRUK S.A. provided a declaration on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 150,000 thousand, which will expire on or before 31 December 2030.

In connection with a PLN 60,000 thousand share capital cancellation at InvestCapital Ltd., carried out on 14 September 2023 and due to become final by 10 January 2024, on 14 September 2023 KRUK S.A. issued a corporate guarantee of up to PLN 60,000 thousand for the benefit of InvestCapital Ltd. The guarantee expired after the reporting date on 9 January 2024. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by 9 January 2024.

In connection with a PLN 180,000 thousand share capital cancellation at InvestCapital Ltd., carried out on 22 September 2023 and due to become final by 15 January 2024, on 22 September 2023 KRUK S.A. issued a corporate guarantee of up to PLN 180,000 thousand for the benefit of InvestCapital Ltd. The guarantee expired after the reporting date on 9 January 2024. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.’s creditors, who had the right to challenge the share cancellation by 9 January 2024.

Until the date of issue of this report, there were no changes in other contingent liabilities or contingent assets. Events subsequent to the reporting date had no impact on the financial data as at 31 December 2023 presented in these consolidated financial statements.

37. Events subsequent to the reporting date

- On 1 February 2024, unsecured AO5EUR bonds with a nominal value of EUR 10,000 thousand were issued. The bonds bear interest at a floating rate based on 3M EURIBOR plus a margin of 4.00pp and mature on 1 February 2029.
- On 12 February 2024, unsecured AO6EUR bonds with a nominal value of EUR 14,000 thousand were issued. The bonds bear interest at a floating rate based on 3M EURIBOR plus a margin of 4.00pp and mature on 1 February 2029.
- On 23 February 2024, unsecured Series AO7 bonds with a nominal value of PLN 70,000 thousand were issued. The bonds bear interest at a floating rate based on 3M WIBOR plus a margin of 4.00pp and mature on 23 February 2029.

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

Piotr Krupa
CEO and President
of the Management Board

Piotr Kowalewski
Member
of the Management Board

Urszula Okarma
Member
of the Management Board

Michał Zasępa
Member
of the Management Board

Adam Łodygowski
Member
of the Management Board

Monika Grudzień-Wiśniewska
Person keeping
the accounting records

Hanna Stempień
Prepared by

Wrocław, March 26th 2024