



**DIRECTORS' REPORT
ON THE OPERATIONS OF THE KRUK GROUP**

IN 2017



**BUILDING BRIDGES
BETWEEN PEOPLE FOR 20 YEARS**



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Time to pursue the most ambitious objectives

Dear All,

To me KRUK's business is like a long distance run. For example, a marathon or a triathlon, both of which I have completed several times. In these races speed does not matter as much as good preparation, strong character and true passion. I have managed KRUK for 20 years now and I believe that nothing motivates me better than the prospect of long distance. KRUK's market capitalisation has jumped from some PLN 600m at the time of its stock market launch to PLN 4bn today. Our net profit has consistently been on the rise. In 2017, it reached PLN 295m, having increased by as much as 19% year on year. Of that I am very much proud.

You may ask: since every marathon has its finish line, does KRUK's business have its own? Of course not. Every runner knows that this comparison has an additional meaning. After crossing the finish line, the runner already thinks about getting ready to enter into the next race with an even more challenging distance. Running, just like KRUK's business in my case, is an adventure for life.

Our organisation already has more than three thousand employees. It has attracted highly talented and the most experienced professionals in the industry. Thanks to them, we can take up even the most challenging races. A few years ago, we set ourselves an extremely ambitious goal. We decided to venture into the largest Western European countries, with the new markets to become KRUK's driving force. This will make us the largest debt management company in the world. As you know, no Polish company has so far achieved significant success in Europe, and only few so aspire. Together with them, we pave the way for others.

Our goal is ambitious, but we have solid foundations and are well prepared. We have spread our wings in Poland and Romania, which are generating a growing stream of cash. In 2017, we posted record recoveries from purchased debt portfolios of PLN 1.4bn in aggregate, with the two markets contributing approximately 80% of the total. Last year, we continued our unique amicable settlement strategy, proven to be effective with clients. Concurrently, in both markets we intensified out court litigation efforts with respect to the most difficult cases, previously not expected to be resolved favourably. We believe that this approach will result in further recoveries in the future.

We always treat our clients as partners – the way we would like to be treated. You have been familiar with our approach for years. However, it is often the case that it is impossible to reach an agreement still at

the out-of-court stage. That is where the court has to step in. This is to the detriment of both parties, because the process becomes longer and more expensive. Instigating court proceedings also seems to make irreversible damage to mutual relations. That is why we welcome amicable settlements at each stage of the process. Debtors who did not agree to instalment-based repayments may contact us at any time and resume negotiations. This is an absolutely innovative approach and we seek to promote it on a large scale. I believe that it will be well received.

We need to be equally flexible in new markets. In each country we are introducing processes adapted to local conditions.

That is why we have been enhancing our adaptive capacities month after month. In 2017, in Italy, we successfully completed the integration with Credit Base, our previous partner in portfolio valuations and debt management. In the past few months, our team grew tenfold. We now employ 200 staff, the great majority of whom are consultants – including field specialists – and lawyers. We are entering into new settlement agreements, thus consistently improving recoveries. A few months ago, we also launched our own litigation procedure, which allows us to handle court cases independently.

In 2017, we also engaged in developing our operational capacities in Spain. The number of employees doubled during the year, reaching 230, and the merger with Grupo Espand acquired last year was successfully completed. Our structures and processes in Spain allow us to handle all types of unsecured cases – both consumer and corporate debts. The local contact centre provides support with respect to all purchased portfolios, while over 30 field consultants cover the four regions of the country that are the most important to us.

It may seem to you that we have already run a long way, but in fact we are still at the start of the road. Efficiency in Italy and Spain has enormous growth potential compared with the mature Polish and Romanian markets. We are still learning hard. In 2017, we learned our lesson when we had to recognise impairment losses on purchased debt portfolios. In line with our conservative approach, we had to swallow that bitter pill. Nonetheless, I think we have done important homework. You can expect that by the end of the year we will have fully developed our operating capacity in both markets, reflecting their respective local conditions.

We still see a growing supply of debt from banks and other financial institutions, with additional contribution from service providers. Last year, we invested PLN 977m in seven markets to purchase debt portfolios with a total nominal value of PLN 16.4bn. This was a second consecutive year when investments amounted to around PLN 1bn. The last 12 months have been marked by further portfolio diversification. Almost 30% of our investments were made in Poland, 25% in Romania, and 40% in our new Western European markets, primarily Italy and Spain. We need to bear in mind that the issue of debt in these countries is still very much alive and serious.

Debt disclosed on the balance sheets of banks across Europe totals nearly EUR 900bn, according to the latest data of the European Banking Authority.

In line with our strategy, I confirm our objective of a 15% increase in earnings per share in 2018 and 2019. Apart from having solid foundations in Poland and Romania and the rollout into Western European countries, we have access to the resources needed to finance new investments. In 2017, we signed another revolving credit facility agreement, for the first time with an international syndicate of four banks: DNB Bank of Norway, Bank Zachodni WBK, mBank, and ING Bank Śląski. The facility of up to EUR 250m may be used to purchase debt portfolios in European markets. We well prepared for the rising supply of debt portfolios in Europe.

This report gives details on a truly important stage in the history of our operations. Over the year, our business grew by nearly 20%, and still the market is full of opportunities and challenges. This year we are celebrating our 20th birthday. I would like to believe that during these years we have managed to build lasting relationships with you, our clients and counterparties. Relationships based on integrity and mutual respect. Thank you for your trust in me and the KRUK team. I encourage you to read this report thoroughly.

Respectfully yours,
Piotr Krupa

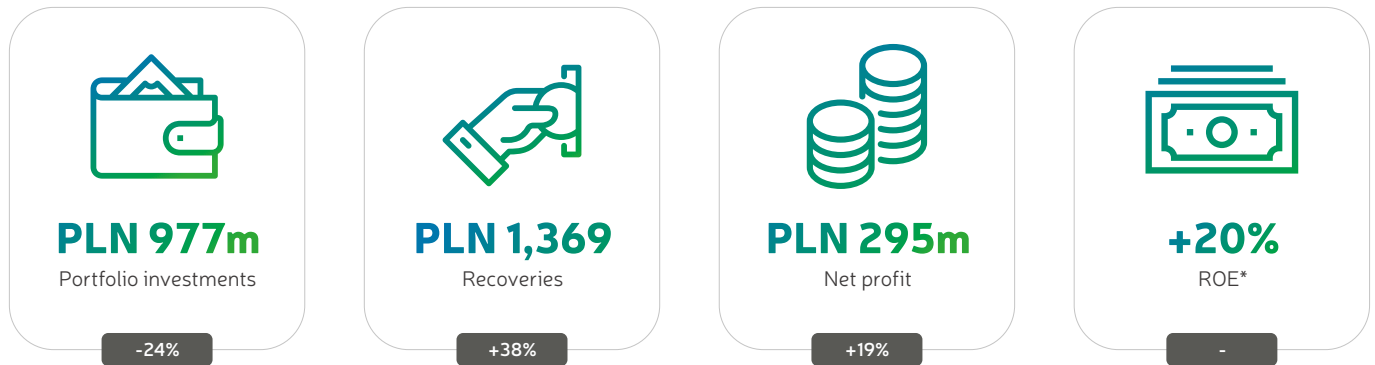
Piotr Krupa

CEO of KRUK S.A.



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2017 performance highlights



PLNm	2017	2016	Change
Expenditure on debt portfolios	977	1,286	-24%
Gross recoveries	1,369	992	38%
Carrying amount of purchased portfolios	3,121	2,641	18%
Projected future gross cash flows (120 months)	5,704	5,037	13%
Total revenue	1,055	783	35%
Revenue from purchased portfolios	972	725	34%
EBIT	421	349	21%
EBITDA	439	363	21%
Cash EBITDA***	837	630	33%
Net profit	295	249	19%
Basic EPS (PLN)	15,74	14,08	12%
Diluted EPS (PLN)	15,31	13,55	13%
ROE	20%	24%	-
Net debt to equity	1,2	1,1	-

* ROE = (net profit)/(equity at end of period), net of December's capital increase

** EBITDA = EBIT + depreciation and amortisation

*** Cash EBITDA = EBITDA - revenue from purchased portfolios + recoveries

Source: Company

We have been building bridges between people for 20 years now

The KRUK Group is the leader of the debt management market in Central Europe. We started 20 years ago as a small, Wrocław-based company employing a dozen or so people. At the moment, the Group comprises a number of companies offering a comprehensive range of modern integrated services. We are ready to adapt to the needs and expectations of our partners in seven European countries.

The Group's core business is management of debt purchased for the Group's own account as well as for banks, telecommunication operators, insurance companies, and other external entities. Our efforts are supported by the Group's law firm (Kancelaria Prawna RAVEN) and credit reference agency (ERIF Biuro Informacji Gospodarczej), both wholly-owned by KRUK. We are also developing the NOVUM loan service offered to our best customers.

KRUK's geographical expansion began in 2007, when we established our presence in Romania. Fast business growth and success we achieved there encouraged us to look for growth opportunities in other countries. In 2011, we started operations in the Czech Republic and Slovakia. Three years later, KRUK Deutschland was established, opening our way to Western Europe. In 2015, we established two more companies – in Italy and Spain. We purchased our first debt portfolio on the Italian market in the same year, and on the Spanish market – early in 2016.

Also in 2016, we acquired a Polish debt portfolio from P.R.E.S.C.O., investing in two million cases with a total nominal value of PLN 2.7bn. With this transaction, we opened in Poland a secondary market of large-scale debt purchase.

Still in the same year, we finalised the largest debt purchase transaction in Romania, signing an agreement with Eurobank Group entities to acquire a consumer debt portfolio with a nominal value of PLN 2.4bn. Our partner in the transaction was IFC, a member of the World Bank Group. The agreement has taken us to the top league, where we can work with the world's largest financial institutions.

We boosted our newly launched operations in Western Europe (Germany, Italy and Spain) by acquiring local players. In 2016, we acquired 100% equity interests in Grupo Espand of Spain and Credit Base International of Italy. The companies had operated in local markets for many years and we worked with them before on debt valuation and management. In 2017, we successfully completed the integration of both companies within the KRUK Group.

Our objective is to continue further growth in seven European markets, and a EUR 250m credit facility agreement will strongly support us in this pursuit. In 2017, we signed another revolving credit facility agreement, for the first time with a syndicate of four banks: DNB Bank of Norway, and Bank Zachodni WBK, mBank and ING Bank Śląski of Poland. This multi-currency facility of up to EUR 250m, with the euro as the base currency, may be used to purchase or refinance the purchase of debt portfolios in European markets other than Poland.



7 countries

Geographical expansion began in 2007.
We operate in 7 countries across Europe.



KRUK's milestones

2000

Launch of debt collection activities

2001

Introduction of the success-only fee model in credit management

Beginning of debt portfolio market – decision to raise capital

2003

KRUK becomes a leader in credit management
Enterprise Investors invests USD 21m (PEF IV)
Purchase of the first debt portfolio

2005

First debt securitisation in Poland, operations in Wątrzych

Decision to replicate the business model abroad

2007

Entry into the Romanian market

Innovative approach to debtors

2008

Implementation of a mass amicable settlement strategy
(amicable or court settlement)

2010

Changes in legislation – operations of Rejestr Dłużników ERIF
(credit reference agency)
Advertising in the media – a mass communication tool

Increased supply of non-performing debt

2011

KRUK shares floated on the Warsaw Stock Exchange
Entry into the Czech and Slovak markets

2014

Purchase of the first large mortgage-backed debt portfolio in Poland
Entry into the German market

2015

Purchase of the first debt portfolios in Germany
Entry into, and purchase of the first debt portfolio on, the Italian market
Entry into the Spanish market

2016

Purchase of the first debt portfolio in Spain
Closing of the acquisition of a debt portfolio from P.R.E.S.C.O.
Completion of a transaction pursued with the World Bank in Romania

2017

Execution of a EUR 250m revolving facility agreement with
a syndicate of four banks to finance further growth in Europe
Completing the integration of the acquired Italian and Spanish
companies within the KRUK Group

Unique business model

The Group's core business is management of debt for institutional clients and for the Group's own account. The Group manages debt in three segments:

- consumer debts (retail, unsecured),
- mortgage debts (retail, secured),
- corporate debts (mortgage-backed and non-mortgage-backed).

We manage receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. However, our main focus is on the banking market, where we rely on long-term relations with our key accounts.



KRUK's business model



Business partners

Banks | Insurance companies | Telecommunications operators | Cable TV | Other media



Debt collection process

Credit management

Recoveries from purchased debt portfolios

Shared debt collection platform, tools and infrastructure (IT, telco, call center)



Consumer debts | Mortgage debt of natural persons | Corporate and SME debts



**We help our customers
people in debt – pay their obligations**

Our debt management business is supported by the law firm Kancelaria Prawna RAVEN, a member of our Group, and by ERIF BIG, a credit reference agency. In addition, we have been developing

the NOVUM loan service, dedicated to our best customers who are regularly repaying or have repaid their debt towards the Group.

A. We help people pay their debts

We set up a repayment plan suited to individual circumstances of debtors and help them escape the debt trap. Every person having a collection account with KRUK may propose their own workable debt repayment terms. We also safeguard compliance with legal rules and social norms requiring that liabilities incurred must be settled. We use available legal tools where settlement on an amicable basis is not possible. We treat each debtor like a partner, the way we would like to be treated ourselves.

What sets us apart



Client focus

Our clients – people in debt – are vitally important to us. We show them respect and understand their financial difficulties. We believe there is always a way to find common ground.



Debt repayment in instalments

We arrange convenient instalment payment plans tailored to the financial circumstances of individual clients. This helps them solve their financial problems step by step.



Case-by-case approach

We approach every case individually. We provide advice, explain any difficult issues, assess the client's financial situation together with the client, and work towards optimal solutions.



Educational initiatives

We design materials and run numerous projects to educate Poles about money and debt. We have set up various initiatives, such as the Day without Debts, Poland's largest annual event encouraging people to pay off their debts.

Debt is a temporary problem

Over the 20 years of our activity, we have been assisting people in settling their debts in seven countries across Europe. We know that the inability to stay current on your bills is often a result of life's hardships, such as a job loss, illness, unexpected expenses or even fluctuations in currency exchange rates. Sometimes the reason is that people overestimate their abilities and incur liabilities they cannot later meet financially.



6m cases

We have a growing client base in Europe

We also know that indebtedness is a temporary problem that can be overcome. All that is needed is a little bit of effort, willingness, and an honest talk with the consultant. For this reason we offer amicable solutions to people who have fallen into debt with no deceitful or fraudulent intentions and who want advice on how to pay it off. In our amicable approach, we propose negotiations and compromise, workable terms, payment instalments adjusted to match a client's ability to pay, without unnecessary pressure, costly court proceedings, enforcement by bailiff or unwanted entries in the credit report. With our assistance, debtors gradually, step by step, get out of the debt trap and regain control of their finances.

We strive to gain an insight into our clients' needs and expectations on a daily basis. We regularly analyse their needs, expectations and satisfaction with the services and solutions offered by our Group. We actively look for new methods and opportunities to provide the most effective assistance to debtors so that they can get back to the financial world and rebuild creditworthiness. We focus our efforts on building long-term, positive relationships with our clients. We know for a fact that if a good relationship with a debtor is established, the case is almost certain to end well. We strive to turn each case into a happy ending.

We are the most popular company in the business

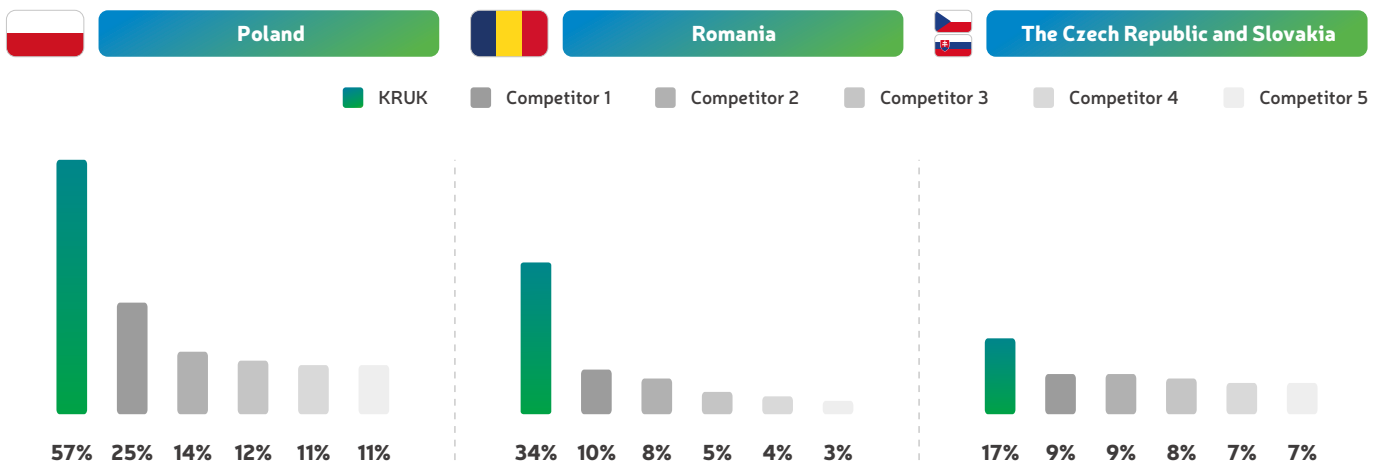
We are known for our amicable settlement strategy, supported through advertising campaigns run in the media. In the past, the theme of indebtedness and solution to debt problems was featured in "Ojciec Mateusz", "Barwy Szczęścia", "M jak Miłość", "Na dobre i na złe", the most popular TV series shown on Polish public TV, as part of the KRUK Group's idea placement campaign. Over the years, the growing popularity of KRUK's strategy has been enhancing the KRUK brand awareness in Central Europe.

Among debt collection companies operating in Poland, Romania, the Czech Republic and Slovakia, KRUK is the undisputed leader in terms of brand recognition, as shown by the results of a research* carried out in 2017 by three research institutions: PBS, KANTAR TNS, and FOCUS – Marketing & Social Research. KRUK's overall brand

(name or logo) awareness was 57% in Poland, 34% in Romania, and 17% in the Czech Republic and Slovakia.

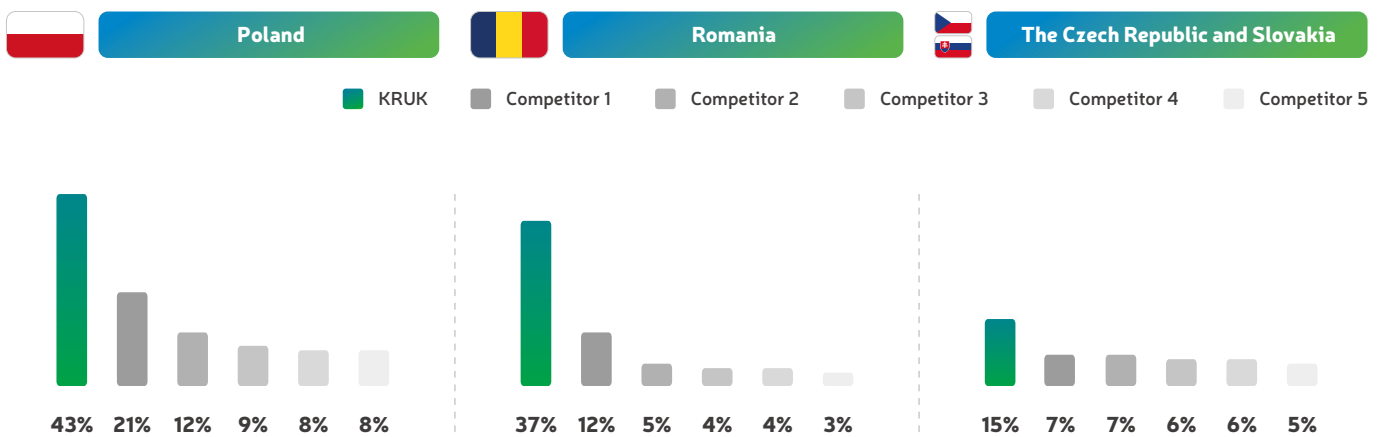
* - PBS, KANTAR TNS and FOCUS surveys in Poland, Romania, the Czech Republic and Slovakia.

KRUK's overall brand awareness vs debt management sector competitors



Source: PBS, KANTAR TNS and FOCUS surveys in Poland, Romania, the Czech Republic and Slovakia.
 ** - Overall Brand Awareness

KRUK's logo awareness vs debt management sector competitors



Source: PBS, KANTAR TNS and FOCUS surveys in Poland, Romania, the Czech Republic and Slovakia.
 *** - Logo Awareness



B. The most experienced debt buyer

From 2002 to the end of 2017, the KRUK Group purchased 694 debt portfolios with a total nominal value of approximately PLN 60bn. We purchased debt portfolios in seven geographic markets: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain. Between 2002 and 2017, we acquired 6 million cases, of which approximately 700 thousand were purchased in 2017 alone.



Debt portfolio purchasing and servicing process

1

Auction to sell a debt portfolio



Banks regularly sell debt portfolios to improve their liquidity or to comply with regulator's requirements and tax law.

2

Valuation of debt portfolios by KRUK



Valuation based on 15 years of experience in purchasing debt portfolios – nearly 700 portfolios purchased and approximately 3 thousand valuations carried out since the beginning of operations

3

Winning an auction and purchase of a debt portfolio



The debt is purchased at a high discount, usually for 5%–25% of its nominal amount. Initially low success rate in reaching debtors, around 20% on average.

4a

Commencement of amicable settlement process

4b

Entry into the register of the ERIF credit reference agency and court settlement

Increased debtor reach and recovery at above 2x to purchase price.



At KRUK, we thoroughly analyse and value each debt portfolio transferred to us, based on detailed information about the debtors, products and related security, debtor behaviour data, as well as based on information on current and expected macroeconomic conditions in a given market. Debt portfolios are valued with the use of advanced statistical tools and debtor behaviour data which the Company has

been accumulating since 2003. By the end of 2017, the Group had performed approximately 3,000 debt portfolio valuations.

In the case of its new markets, i.e. Germany, Italy, and Spain, the Group also draws on the experience of the local companies it acquired in 2016: Credit Base International in Italy and Grupo Espand in Spain.

Debt portfolios purchased over last five years

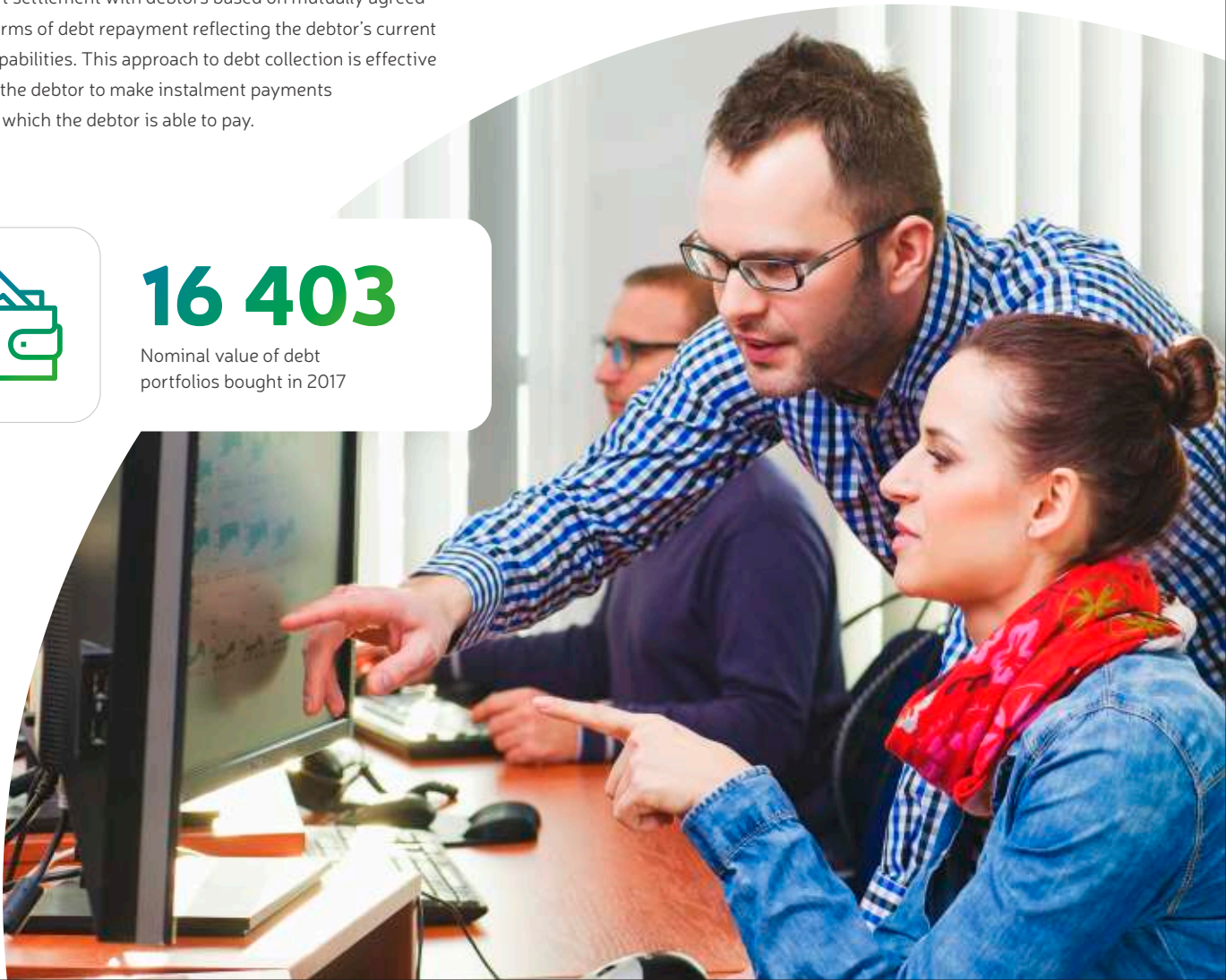
PLNm	2013	2014	2015	2016	2017
Nominal value of purchased debt portfolios	3,791	3,776	4,926	16,440	16,403
Accumulated nominal value of purchased debt portfolios	17,917	21,693	26,619	43,059	59,462
Cash recoveries	538	712	826	992	1,369
Accumulated cash recoveries	1,943	2,655	3,481	4,473	5,842

In purchased debt management, our main strategy provides for out-of-court settlement with debtors based on mutually agreed optimum terms of debt repayment reflecting the debtor’s current financial capabilities. This approach to debt collection is effective as it allows the debtor to make instalment payments in amounts which the debtor is able to pay.



16 403

Nominal value of debt portfolios bought in 2017

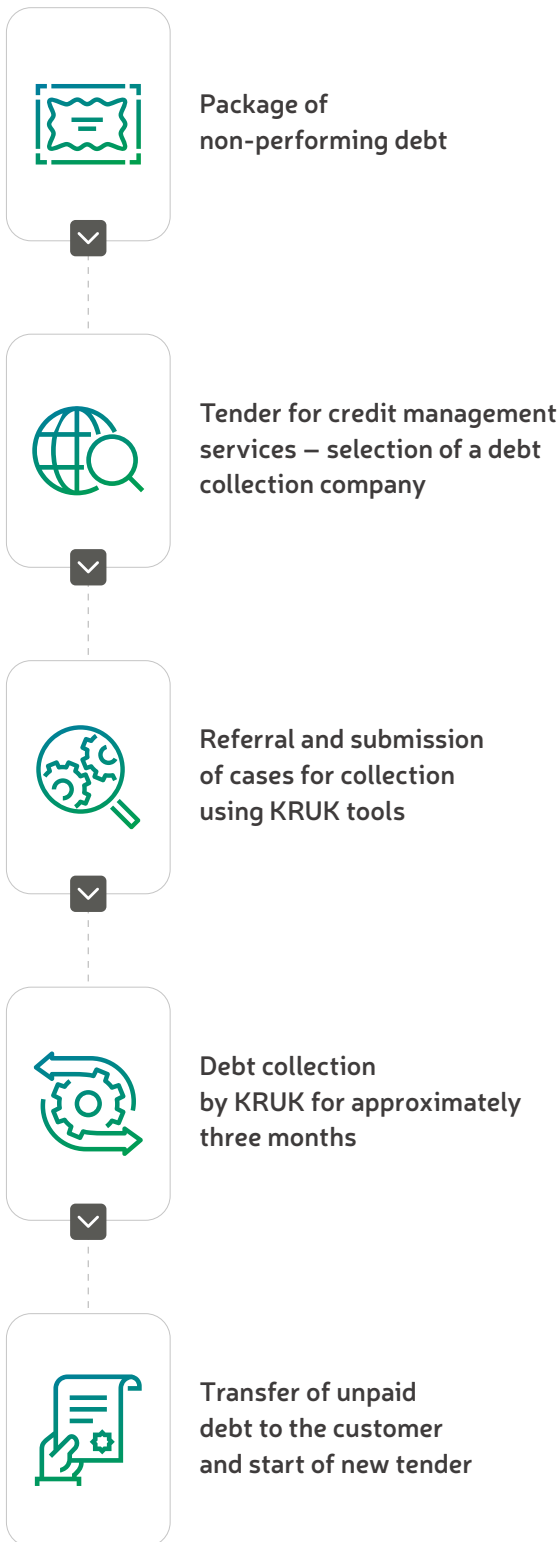




C. How else can we help?

KRUK supports debt buying with ancillary activities described below. This comprehensive approach is an important competitive advantage as it offers numerous synergies and helps mitigate the risk related to debt portfolio purchases thanks to additional statistical information.

We provide credit management services in an average of one million cases per year. Many of the portfolios we manage are then sold. Debt management companies, which are strong in this segment, have the advantage of greater expertise in portfolio buying. KRUK manages all types of debts (consumer, mortgage and corporate) at any stage of the debt collection process (amicable settlement, court proceedings). Participation in the credit management market helps us to better price and manage portfolios purchased for our own account.



Debt monitoring

Very early stage collections, with a strong focus on debtor rehabilitation.

Monitoring of amounts due from debtors is a prompt, early and effective response to payment irregularities and payment delays (even by a couple of days). The process is mainly based on the Contact Center technology, and the key objective of contacting debtors is to restore regular repayments. Debt monitoring involves soft collection activities, mainly phone call reminders. It is important to note that the probability of making contact with a client is very high at this stage.

The tools we use include:

- phone calls,
- text messages,
- voice messages,
- dunning letters prepared on a case-by-case basis.

Amicable debt collection

The purpose of the amicable debt collection process is to recover debt as quickly as possible in cooperation with the client, using the most effective tools for particular debt categories.

The process involves a range of activities selected on a case-by-case basis. The collection tools we employ vary depending on the type of debt portfolio and the needs of our trading partners. For this reason, each debt portfolio accepted for management is subject to analysis. Our unique know-how and understanding of the industry combined with collection activities selected on a case-by-case basis facilitate effective credit management and accurate planning of the collection process. We also manage restructuring processes and execute agreements for debt repayment in instalments. Our objective is to reach the client, establish contact and agree on a feasible debt repayment scenario.

The purpose of the amicable collection process is to:

- recover overdue payments as quickly as possible;
- gain insight into a debtor's financial condition and determine viable repayment options;
- verify debtor contact details;
- recover payments from debtors with an unsuccessful collection history.

Advantages of the amicable collection process:

- high rate of success in contacting debtors;
- improved portfolio quality;
- debtor discipline;
- reduced risk of debt ageing.

Court proceedings

The law firm Kancelaria Prawna RAVEN handles all aspects of court enforcement proceedings, from claim filing to enforcement by court bailiff. The services of Kancelaria Prawna RAVEN include:

- alternative dispute resolution focused on reaching amicable settlement;

- phandling court proceedings: ordinary, warrant-of-execution and separate proceedings, including in particular the payment order, writ of payment, electronic proceedings by writ of payment and simplified procedures;

- legal representation of creditors in the course of insolvency and arrangement proceedings;

- handling the probate process, including in particular identification of the debtor’s heirs and initiating proceedings to secure an enforcement order against an heir;

- enforcement of secured debt and debt in the SME sector;

- active monitoring of court proceedings;

- due diligence processes, including reviews of client records.

Specialised services

As part of our services, we handle advanced and non-standard processes for various case types, tailoring them to the needs of every partner.

The separate bespoke process used with respect to mortgage-backed debts includes all collection tools available to the KRUK Group. It is dedicated to providing bespoke services and solutions that suit the type of case handled and the large size of debts secured by mortgage. The process relies on non-standard solutions and is aimed at effecting voluntary sale of the property. Our dedicated staff advise and support clients on each stage of the process. In managing mortgage-backed debts, we work with our partners offering property and financial agency services.

Each collection case is carefully analysed to determine the client’s financial situation and verify the condition and quality of collateral. Then, depending on the findings, steps are taken to restore regular repayments, arrange credit restructuring, sell the property in the free market or, as a last resort, organise an auction and sell the property as part of enforcement proceedings, or foreclose the property. Our optimal mortgage-backed debt management system ensures efficient debt collection.

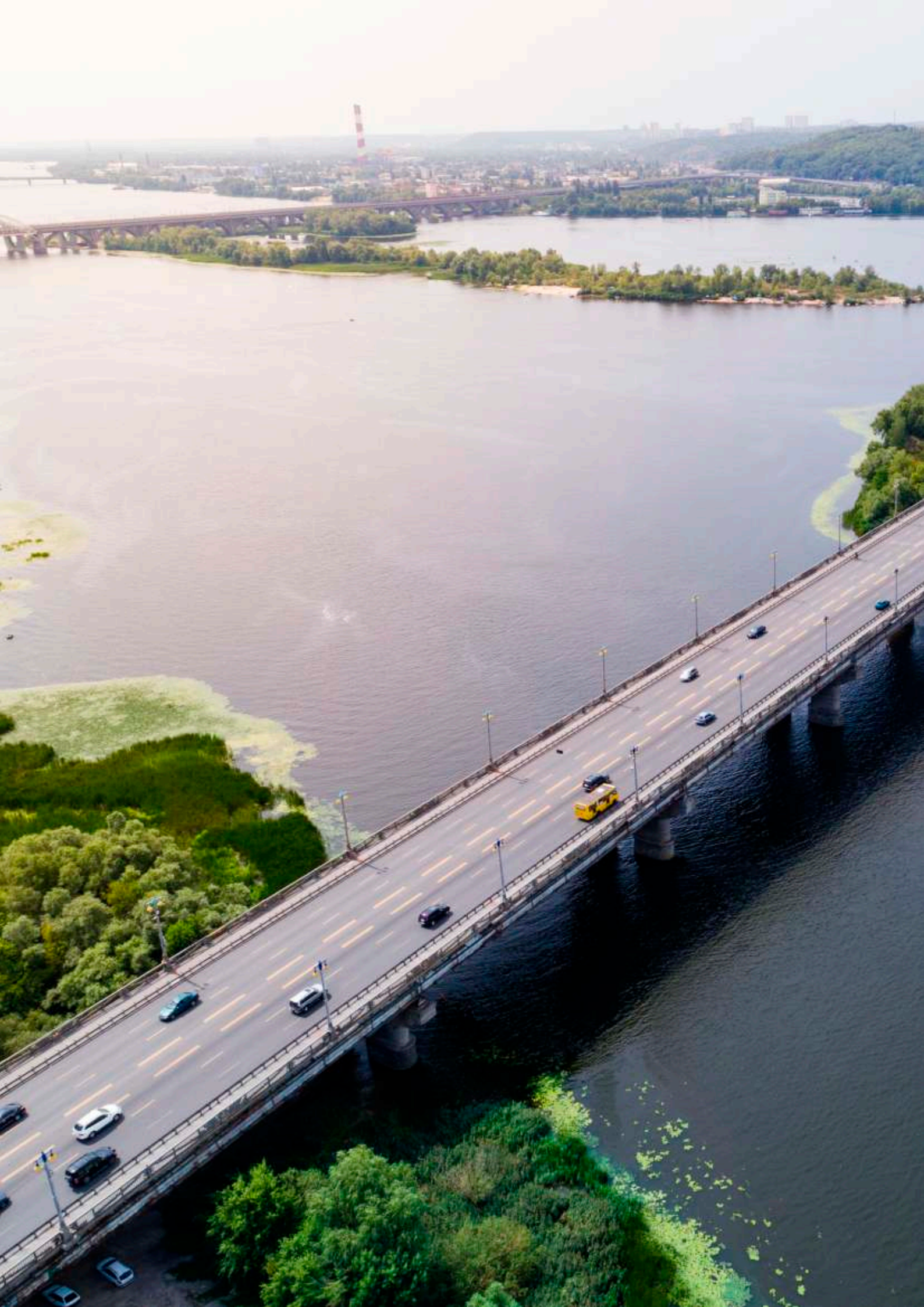
ERIF credit information agency

The credit information agency ERIF Biuro Informacji Gospodarczej S.A. offers tools for checking the creditworthiness of potential counterparties and disciplining clients who fall in arrears with their payments.

Clients for ERIF Biuro Informacji Gospodarczej S.A.’s services include large companies and institutions, SMEs and consumers alike. The agency operates a broad and diverse database of business information, collecting and providing access to information on timely payments and unpaid debts of businesses and consumers. It is the only credit reference agency in Poland to issue quarterly database audit reports that are reviewed by an independent audit firm – KPMG Audyt Sp. z o.o. sp.k.

The positive and negative credit information available from the ERIF database allows the agency’s clients to effectively support their own risk assessment processes. Business and consumer verification and monitoring services are important preventive measures facilitating prudent and responsible decision-making, helping active users to avoid unreliable suppliers.

The ERIF agency also provides tools supporting debt collection and monitoring processes. The service of adding new negative entries in the database and sending a relevant notice to debtors is an effective tool to persuade businesses and consumers with delinquent accounts to pay their debts. A negative entry warning alone may serve as an effective payment reminder at an early collection stage. Using services offered by the agency mitigates the risk of an entity’s liquidity and financial position deteriorating as a result of dealing with unreliable trading partners or clients.



D. Our organisation is based on innovation

KRUK has been in the business for 20 years now. We have the widest experience in the market and a track record of unparalleled growth, but we are still very young. We developed our business when the Internet and mobile technologies were becoming widely available, redefining communication between people. These technological shifts also helped shape our team and corporate culture. We are open to new ideas and opportunities offered by new technologies. We share and discuss ideas, spark changes and bring them to life. We are constantly on the look out for solutions that can improve our work. Arising from KRUK's innovation culture, a number of projects were completed in 2017 which had a significant effect on our activities. Some of them are presented below.

E-kruk.pl – innovative debt management platform

In 2017, KRUK launched e-kruk.pl, a new intuitive online platform. It allows customers to generate an online agreement, choose the number of instalments and the repayment period, as well as pay off their debt via a quick online payment. e-kruk.pl successfully supports the Company's basic operational processes. Each day starting from its launch, it had new user registrations, new arrangements and new repayment declarations.

E-kruk.pl's main functionalities:

- overview of all cases managed by KRUK;
- possibility of generating agreements tailored to the circumstances of each debtor;
- e-payment;
- submission of declaration;
- possibility of updating data, downloading applications;
- online chat;
- additional channel for free communication between clients and KRUK;

The platform was developed based on the User-Centered Design framework. Its intended purpose was to present to the clients their current financial situation in a transparent, friendly and comprehensible way. The website views and individual functionalities were designed based on clients' opinions and are tailored to meet their needs. Not the other way round. This approach turned out to be the key to success. Following completion of the concept development stage, the prototype of the platform was tested by end users in accordance with User Experience practices. The platform was deployed in August 2017 as KRUK's first project created from the very beginning in cooperation with clients.



Results in figures:

Data from the launch date to March 15th 2018

Number of users: **6,900**

Recoveries: **PLN 0.8m**

Agreements: **PLN 3.2m**



Marta Adamczak

Head of e-commerce development

Why are clients so willing to use the e-kruk platform?

Why are clients so willing to use the e-kruk platform? Because we designed it with them. It is very user-friendly, offering access to full debt history and many other useful functionalities. The main view refers to traffic lights, with each colour conveying a different message. Green means the positive status of a case, yellow may mean, for instance, that the payment date is approaching, while red denotes that an urgent response from the client is needed. It is a very intuitive and easy-to-use tool, as confirmed by the growing performance figures.

Where do you see e-kruk in five years?

Quick and easy debt service will always be a priority for the platform. We monitor traffic on the website and analyse the results, strengths and weaknesses on an ongoing basis. Based on the findings, the service is continuously improved and updated. I believe that this will help create an ideal platform for our clients, one which will not only support them in paying debt, but will also help them save money and maintain financial discipline. Where do I see e-kruk in five years? I expect it to be a market leader in online debt servicing.

KRUKLigon

KRUKLigon is an apartment in the KRUK offices. The idea behind KRUKLigon was to create a place which would best remind the real work environment of our field consultants. And where employees can improve their skills by having arranged conversations with professional actors playing the role of clients.

KRUKLigon is equipped with a one-way mirror, cameras and microphones to record the meetings. Recorded videos can be played later, allowing meetings to be studied and discussed in detail. Workshops at KRUKLigon are held four days a week. One training session lasts two days and four consultants take part in it. After each

session, the trainer prepares a short report with recommendations for further development, for the participant, their supervisor and field trainer.

Films recorded at KRUKLigon can be used:

- during recruitment to show the candidates what field consultants do in meetings with clients;
- during training sessions to show scenarios of conversations with clients;
- at regional meetings of field consultants to present and discuss specific relational techniques with clients, as well as to promote the model approach in conversations with clients;
- in e-learning.

KRUKLigon is one of the newest and most awarded KRUK projects. On May 9th 2017, it took the first place in HR INNOVATOR 2017, a nationwide competition for companies running innovative human resources projects.



Results in figures:

As at December 31st 2016
 Number of trained consultants: **245**
 Number of training sessions: **54**
 As at December 31st 2017
 Number of trained consultants: **194**
 Number of training sessions: **52**

The project helped break the silo mentality and move away from improvement in one’s own area to focusing on and improving processes across the organisation. Additional benefits included better understanding of lean management, elimination of resource wastage, analysis of the root causes of problems rather than symptoms, and a problem solving attitude. The system engaged the employees in the change process and helped create an empowered work environment.

Suggestions are still an important tool in the hands of managers of individual areas. who can use them to enhance employee motivation and commitment to the organisation’s growth.



Results in figures:

Total number of suggestions: **2,933**
 Suggestions rejected: **1,620**
 Suggestions in the acceptance process: **987**
 Suggestions implemented: **326**

Key project parameters:

Project duration: **21 months**
 Project location: **Wroclaw**

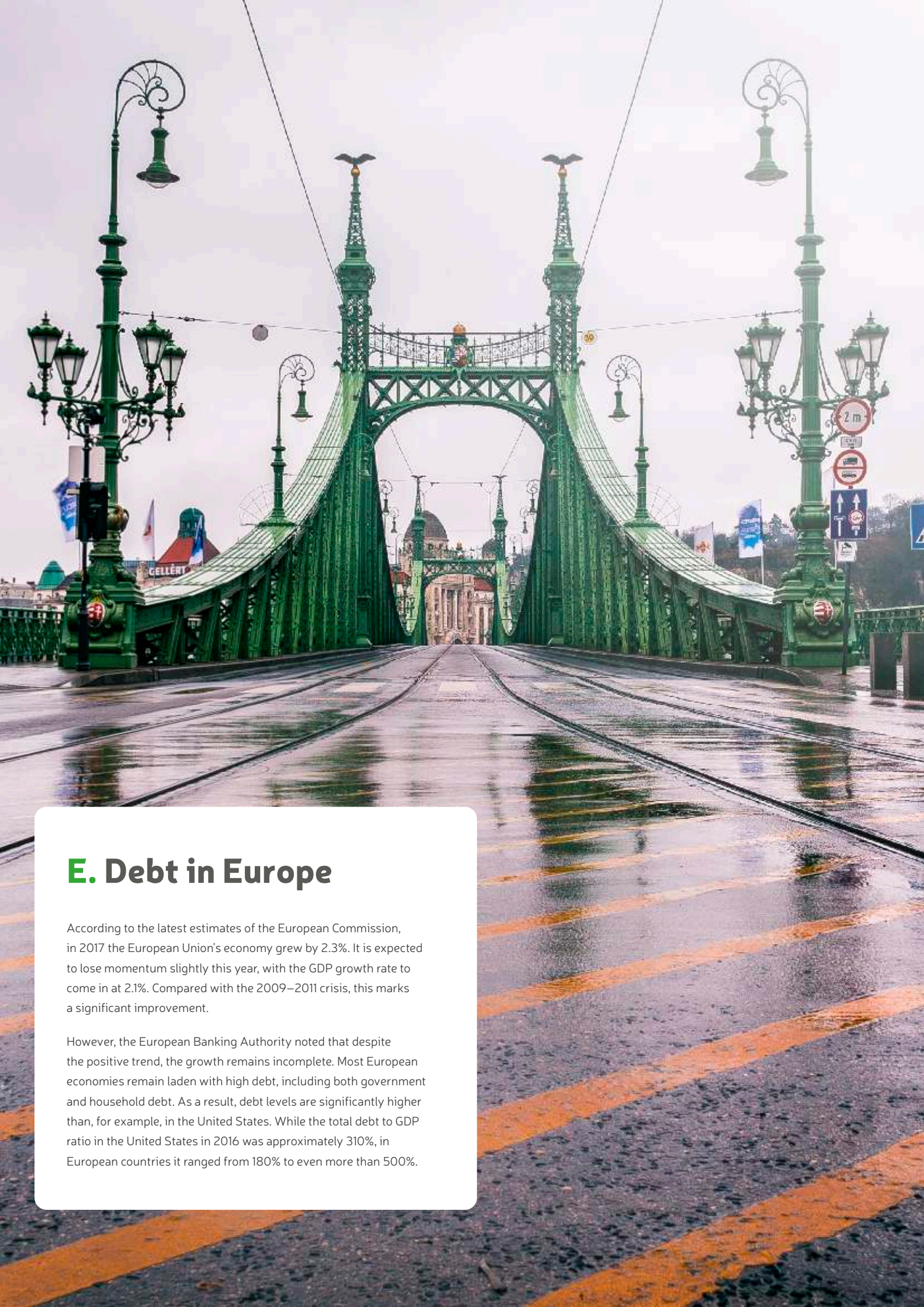
**The greatest still lies ahead:
 Employee Suggestion Scheme**

Through the Employee Suggestion Scheme, employees can put forward ideas for improving the processes and changing the work environment to make it better, safer and friendlier. The Scheme has been implemented in Poland, the Czech Republic, Slovakia, and Romania.

The project has won recognition in the most prestigious competitions. It has won the silver award for best organisation and information projects in the Polish Project Excellence Award 2017 contest. The project supported the creation of an organisational culture relying on the process approach and improvement of the organisation based on lean management.

Thanks to the project we have:

- created a streamlined environment for implementing changes across the organisation;
- increased our employees’ involvement in process improvement;
- Developed methods to assess benefits of the changes for the organisation.

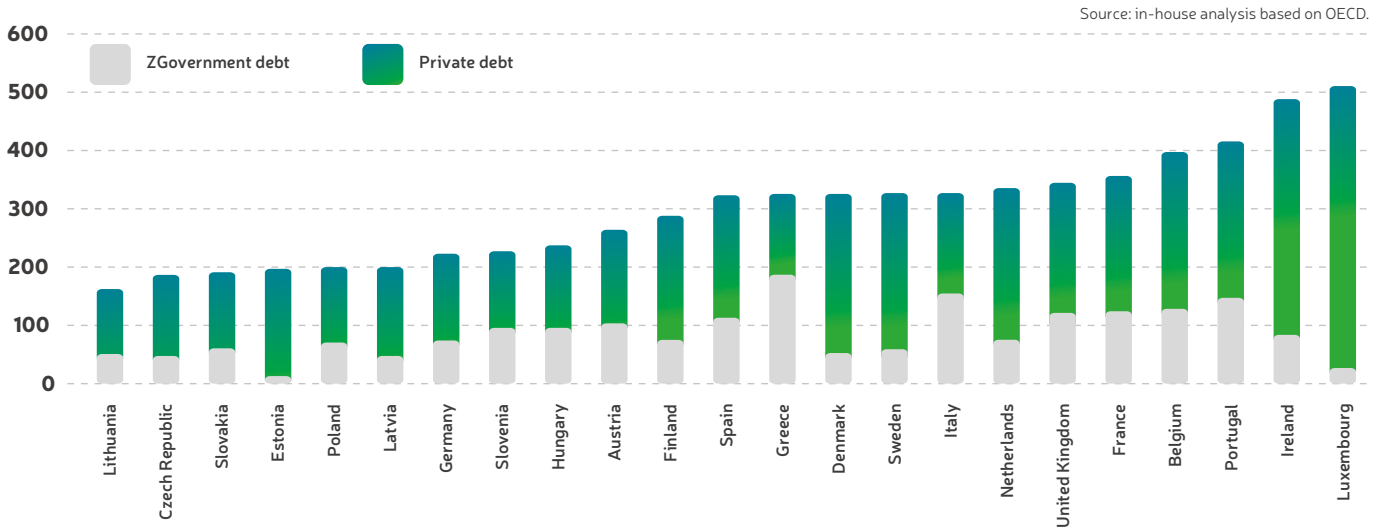


E. Debt in Europe

According to the latest estimates of the European Commission, in 2017 the European Union's economy grew by 2.3%. It is expected to lose momentum slightly this year, with the GDP growth rate to come in at 2.1%. Compared with the 2009–2011 crisis, this marks a significant improvement.

However, the European Banking Authority noted that despite the positive trend, the growth remains incomplete. Most European economies remain laden with high debt, including both government and household debt. As a result, debt levels are significantly higher than, for example, in the United States. While the total debt to GDP ratio in the United States in 2016 was approximately 310%, in European countries it ranged from 180% to even more than 500%.

2016 debt to GDP ratio in EU Member States (%)

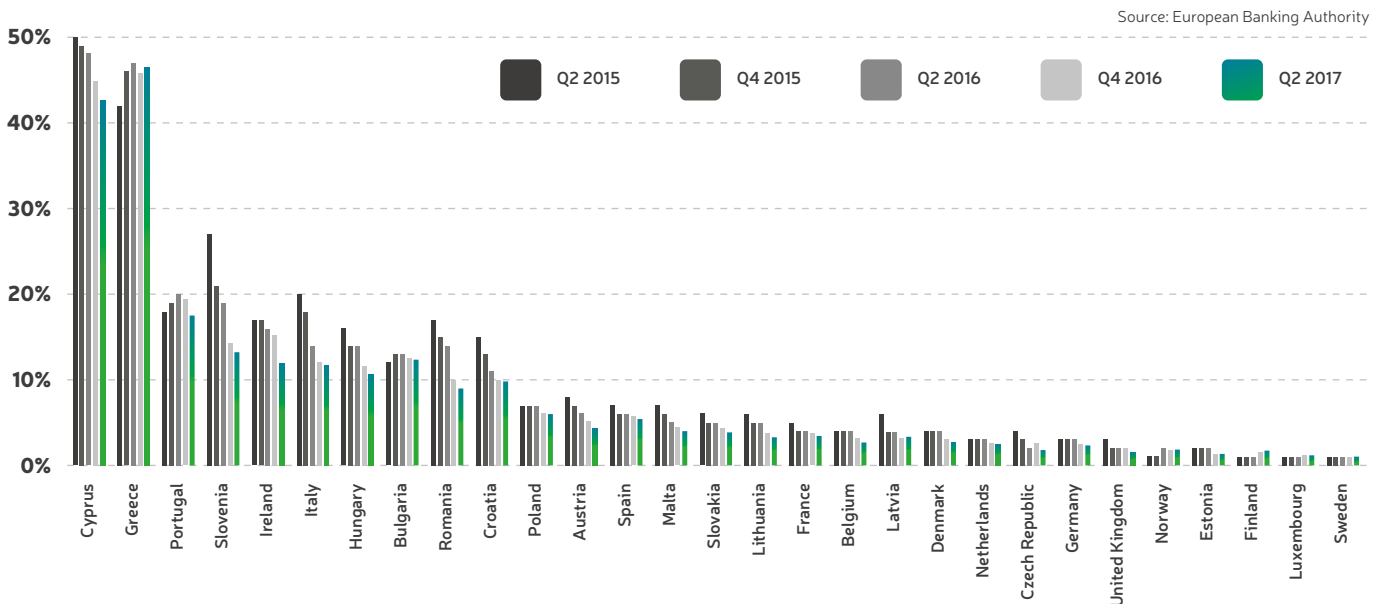


The high household debt increases the risk related to non-payment of instalments of bank and other loans. Non-performing loans on banks' balance sheets totalled EUR 893bn at the end of the first half of 2017, according to the latest European Banking Authority's data. The ratio of non-performing loans to other loans (NPL ratio) averaged 4.5%. Although it is below the peak recorded in December 2014 (6.5%), it is still significantly higher than during the pre-crisis years.

What is more, the ratio fell as a result of a growing number of advanced loans rather than the reduction of non-performing loans.

The chart below presents the NPL ratio in individual European countries. It is worth noting that in eight countries it is still above 10%, including in Italy and Romania, KRUK's two key markets. The NPL ratio is still high in Poland, at around 6%.

NPL ratio in Europe



Banks and regulators are taking steps to reduce non-performing loans. At the end of the first half of 2017, NPLs totalled nearly EUR 900bn, which is still a very high figure, suggesting that its reduction will be a long-term process. Identifying the obstacles in the process of NPL

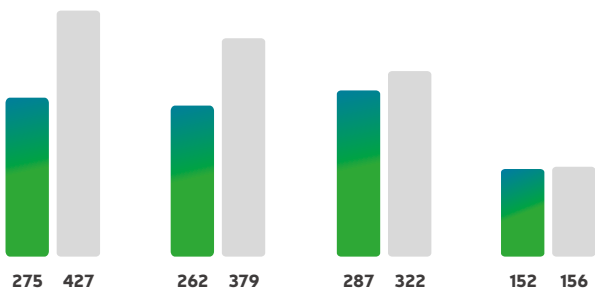
reduction, banks point out to two main factors: prolonged and costly court proceedings and the still underdeveloped NPL purchase market, according to the European Banking Authority.

F. KRUK's markets by geography

The KRUK Group remains a key link in the process of NPL reduction in the balance sheets of banks and other institutions. In 2017, the Group's primary markets were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain. We also purchased corporate debts. KRUK was also active in the credit management market in Poland, Romania, the Czech Republic, Spain, Italy and Germany.

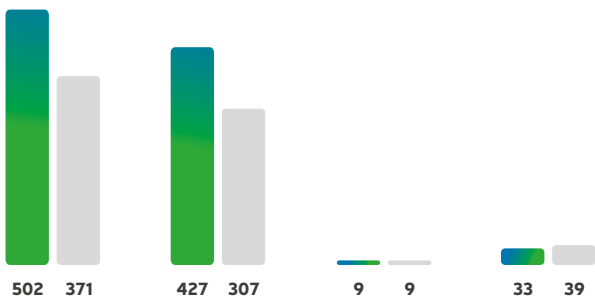


Capital expenditure

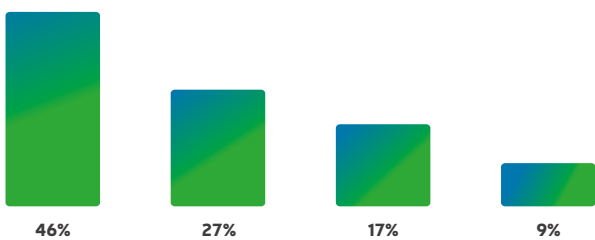


Revenue from purchased portfolios

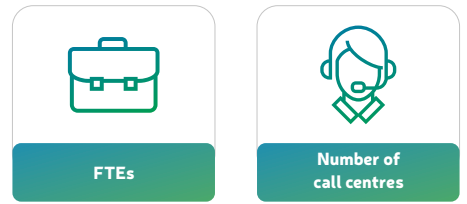
2017r. 2016r.



Portfolio carrying amount (at end of 2017), TOTAL: PLN 3.1bn



Source: Company



Country	FTEs	Number of call centres
Poland	1,803	3
Romania	624	1
The Czech Republic and Slovakia	222	1
Germany	*	*
Italy	200	1
Spain	227	1

* - employees of the Polish-German organisation included in total for Poland
Source: Company





Germany



Poland



The Czech Republic



Slovakia



Romania

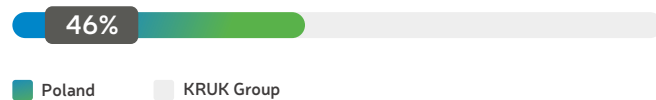


Italy

Geographical segments

A. Poland

Share of portfolios purchased in Poland in the carrying amount as at December 31st 2017



Investments in Poland (PLNm)



According to the Group's estimates, in 2017 the nominal value of debt transferred for collection by third parties in Poland was PLN 33.1bn (2016: PLN 28.2bn). This amount comprised two segments:

- The debt purchase segment – portfolios with a total nominal value of PLN 18.8bn (2016: PLN 16.6bn), the highest ever in the Polish market;
- The credit management segment – cases with a nominal value of PLN 14.3bn (2016: PLN 11.6bn).

Debt purchase market

In 2017, unsecured consumer debt portfolios totalling PLN 10.7bn accounted for the largest share in the total nominal value of debt portfolios of PLN 18.8bn. The value fell year on year, from PLN 14.7bn. The second largest group of assets included corporate and SME debt, the supply of which ballooned in 2017 to PLN 7.0bn, from PLN 0.8bn a year before. The supply of secured consumer debt reached PLN 1.1bn, remaining broadly flat on the previous year.

KRUK estimates that auction prices for the entire market were at 12.7% on average for unsecured consumer debts, but the average for the most representative auctions ranged from 15% to 30%. In the case of corporate and SME portfolios, the average stood at 2.7%, and in the case of secured consumer portfolios it reached 38.9% (higher prices followed from the sale of a large portfolio partly comprised of performing debts). According to the Management Board, the average prices in 2017 were significantly higher than in previous years.

The KRUK Group purchased debt portfolios in Poland with a total nominal value of PLN 5.3bn for PLN 275m. Unsecured consumer debt

accounted for the largest share of the Group's purchases in Poland. KRUK's estimated share in the Polish debt purchase market was 18% in terms of investments, compared with 25% last year.

Credit management market

The nominal value of debt portfolios outsourced for management in 2017 was PLN 14.3bn, compared with PLN 11.6bn in 2016. In 2017, as in the previous years, banks continued to be the largest client group in the credit management segment.

The Group estimates that in 2017 it was still the leader of the Polish credit management market, with a 35% share in the nominal value of debts outsourced for collection, compared with 34% in 2016. The Group focused chiefly on the financial services market, in particular non-performing bank debts.



Urszula Okarma

Member of the KRUK Management Board

What was the situation on the Polish market in terms of investments?

The supply of debt from banks and other institutions in Poland jumped to another record high. All debt groups were outsourced for management – from secured consumer debt to secured corporate debt portfolios. Concurrently, we faced significantly stronger competition, as a result of which we were not always able to invest in new debt portfolios securing the expected rates of return.

What are the investment prospects for the coming years?

We are facing a year of challenges. I expect that competition in Poland will remain intense because market participants include all major credit management companies and international investment funds.



Piotr Kowalewski

Head of Debt Management

What major developments took place at the company last year?

2017 was marked by further improvement of amicable settlement procedures and stronger reliance on litigation. We referred a significantly larger number of debt cases to courts than in previous years, recording higher recoveries in this channel. We continued to focus on optimisation measures that improved the effectiveness of our processes.

What will be the main challenges for the organisation in the coming year?

We will focus on further improvement of our operations and adapting to changes in the business and legal environment. We operate in a dynamically changing and strongly competitive environment, where the key drivers of ever-improving performance include not only a unique business model, but also flexibility in operations.



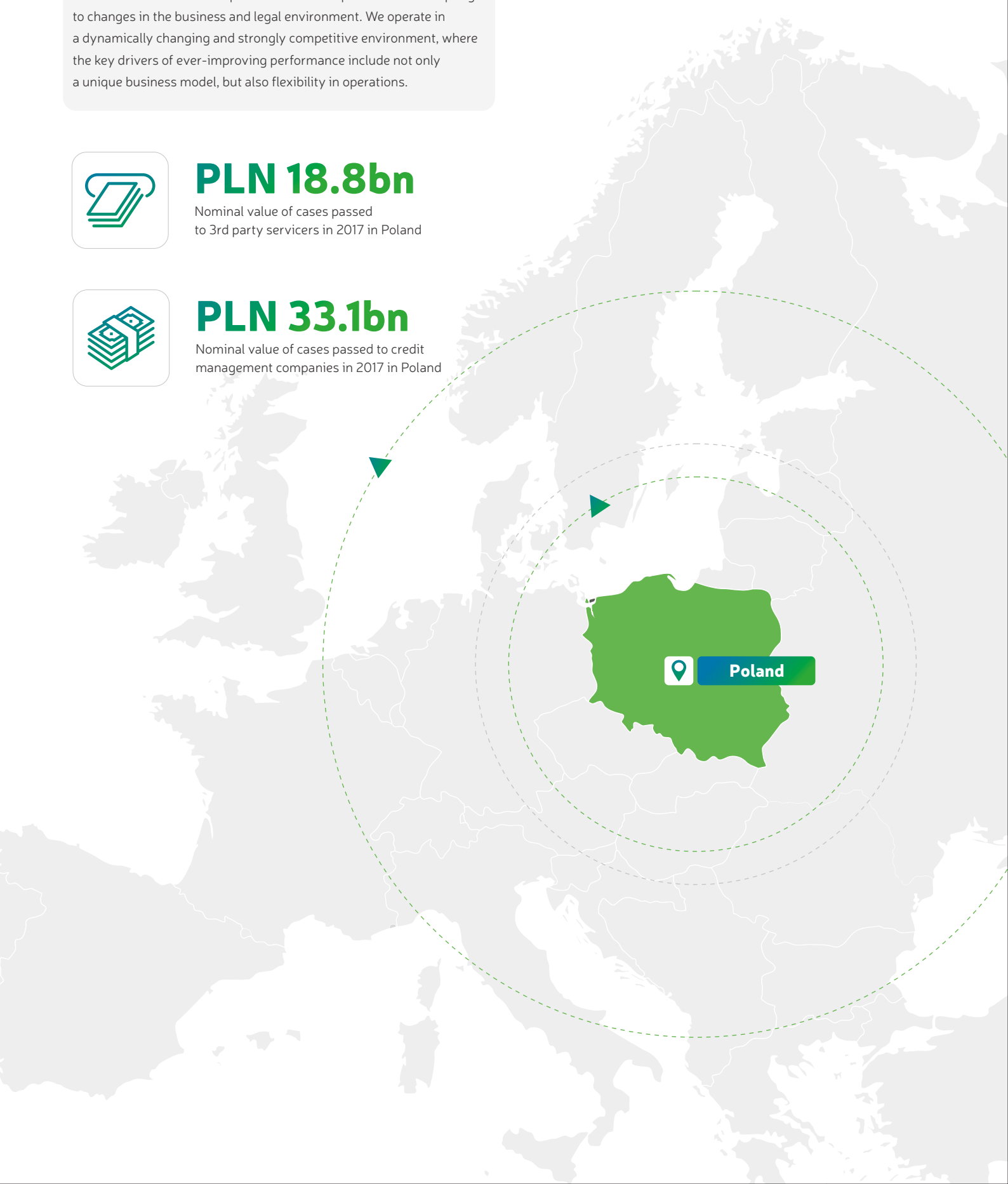
PLN 18.8bn

Nominal value of cases passed to 3rd party servicers in 2017 in Poland



PLN 33.1bn

Nominal value of cases passed to credit management companies in 2017 in Poland

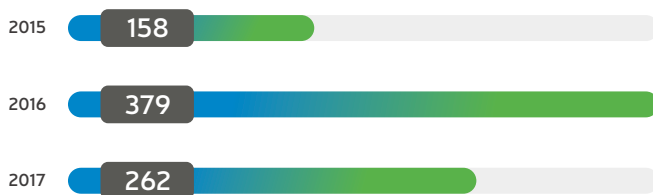


B. Romania

Share of portfolios purchased in Romania in the carrying amount as at December 31st 2017



Investments in Romania (PLNm)



According to the Group's estimates, in 2017 the nominal value of debt transferred by Romanian institutions for collection by third parties was PLN 12.1bn (2016: PLN 13.4bn). This amount comprised two segments:

- The debt purchase segment – portfolios with a total nominal value of PLN 8.8bn (compared with PLN 8.9bn in 2016);
- The credit management segment – cases with a nominal value of PLN 3.3bn (2016: PLN 4.5bn).

Debt purchase market

The largest proportion of the total amount of purchased debt portfolios of PLN 8.8bn was represented by corporate and SME debt, which contributed PLN 5.2bn, compared to PLN 2.3bn in the previous year. The second largest item were unsecured consumer debt portfolios, which accounted for PLN 3.0bn of purchased debt, relative to PLN 4.8bn a year before. Secured retail debt amounted to PLN 0.6bn in 2017, falling from 1.7bn year on year.

According to KRUK's estimates, in 2017 the average price of debt portfolios in Romania was 12.3% (17.7% for unsecured consumer debt, 14.3% for secured retail debt, and 9.1% for corporate and SME debt). No significant change in prices was observed relative to the previous years.

In Romania, in 2017 KRUK invested PLN 262m to purchase debt portfolios with a nominal value of PLN 3.1bn. A year before, the respective amounts were PLN 379m and PLN 3.7bn. KRUK's share in the debt purchase market was 25% and shrank from 35% in the previous year.

Credit management market

In 2017, debt outsourced to KRUK for collection amounted to PLN 440m, up from PLN 353m in 2016. We estimate our share in the Romanian market at around 10–20 percent.



Tomasz Ignaczak

CEO – Romania

What was the situation on the Romanian market in terms of investments?

The market continued to expand. It has matured and now offers a large number of transactions involving both unsecured and secured debt portfolios. The market is characterised by strong competition from nearly all European debt collection companies and international investment funds seeking to purchase debt portfolios, in particular secured debt. Although competition is intense, we managed to remain the leader in investments in retail portfolios. We successfully completed the acquisition of a secured corporate debt portfolio, gaining a firm foothold in the market for secured debt.

What are the investment prospects for the coming years?

In 2018, trends will be similar to those observed in 2017. Unsecured retail debt portfolios will account for a major share of supply. I also expect that the supply of corporate debt will be strong, just like in the previous year. In addition, the number of mortgage-backed portfolios may be higher than in 2017.

What major developments took place at the company last year?

Last year, we continued to implement our objectives. We focused on optimisation measures that improved the quality and effectiveness of our processes. First and foremost, we achieved closer integration of court proceedings with amicable settlement. Our active approach to purchasing debt portfolios, including secured debt, also helped us to expand our corporate structures. The NOVUM loan service offered to KRUK's former clients in Romania is also gaining ground.

What will be the main challenges for the organisation in the coming year?

As the organisation's key objectives for 2018 I would mention further streamlining of our processes at both out-of-court and in-court stages. In particular, I am looking forward to innovative solutions, such as the development of debt collection by electronic means, which will enable communication with debtors through online and mobile channels. We also intend to further develop the NOVUM loan service, seeking to offer these loans to third parties.



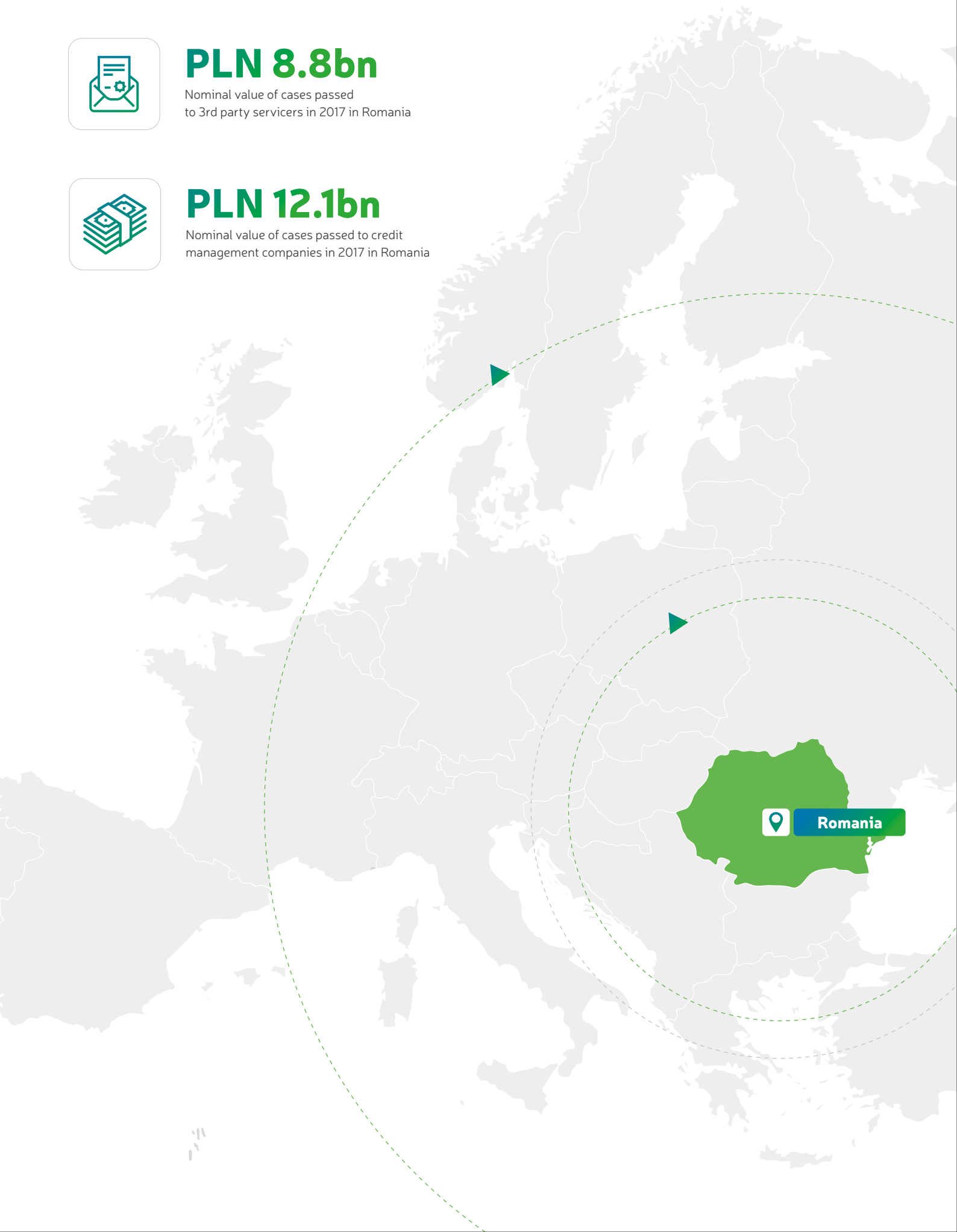
PLN 8.8bn

Nominal value of cases passed to 3rd party servicers in 2017 in Romania



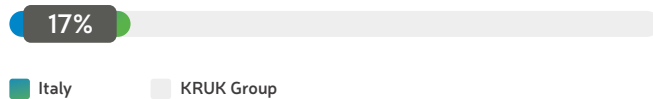
PLN 12.1bn

Nominal value of cases passed to credit management companies in 2017 in Romania



C. Italy

Share of portfolios purchased in Italy in the carrying amount as at December 31st 2017



Investments in Italy (PLNm)



We have been present in Italy since 2015, when we established KRUK Italia S.r.l. (a debt management company) and ItaCapital S.r.l. (a special purpose securitisation company). ItaCapital S.r.l.'s principal business activity is investment in debt or debt-backed assets. In 2016, we signed an agreement to acquire Credit Base International, with which we previously cooperated in portfolio valuations and debt management. On the acquisition date, its consolidated revenue in 2015 reached EUR 2.2m. In 2017, we successfully completed the integration of CBI into our structures.

According to the Italian central bank, the aggregate value of loans advanced by the Italian banking sector was EUR 1.3 trillion at the end of 2017. In 2016, it was about PLN 1.4 trillion. The loss ratio was approximately 13%. Despite its relatively recent character, the Italian unsecured retail debt market is already one of Europe's largest in terms of nominal value. The Italian market is a competitive one, with portfolios purchased both by debt management companies and financial investors.

The debt sale market in Italy was around PLN 270bn in 2017, according to our estimates and data available on the market. Most debt portfolios offered by local financial institutions consist of various asset classes, including both unsecured and secured debt.

In 2017, the KRUK Group purchased debt portfolios in Italy with a nominal value of PLN 5.2bn by investing PLN 287m. A year before, the Group invested PLN 322m to purchase debt portfolios with a total nominal value of PLN 6.2bn.



Tomasz Kurr

General Director – Italy

What was the situation on the Italian market in terms of investments?

The debt management market in Italy is changing rapidly. We can see a growth in debt supply year on year, and thus an increased investment appetite, not only from KRUK but also from other market players. As in any country, a natural phenomenon at this stage of development is professionalisation in transaction execution, but also in portfolio servicing, to meet the requirements of the market and address growing pressure on prices.

What are the investment prospects for the coming years?

We anticipate continued high supply from Italian banks and other financial institutions. Over the next two to three years, we expect stabilisation on the market of unsecured consumer debts, which are our preferred type of assets, and a continued significant share of mixed bank portfolios.

What major developments took place across the organisation last year?

In 2017, we worked to build an operating centre for our Italian company based on the resources of Credit Base International, a debt servicing company acquired last November. Within a few months, we expanded our operational capabilities tenfold, reaching a headcount of 230. A vast majority are employees directly involved in operations, such as contact centre staff, field consultants and the legal team. Furthermore, we implemented tools used in other countries where KRUK is present, including the Delfin Mobile platform, dedicated to our field employees. We were also first to change the field consultants' work model. They have received company cars and mobile devices that improve the efficiency of their daily activities.

We also launched all key processes, including for entry into settlements and monitoring of settlements with clients, being the core element of our strategy.

We also invited selected service providers from the Italian market to work with us. As a result, we can effectively manage the growing volume of cases and customise our own processes to local needs.

What will be the main challenges for the organisation in the coming year?

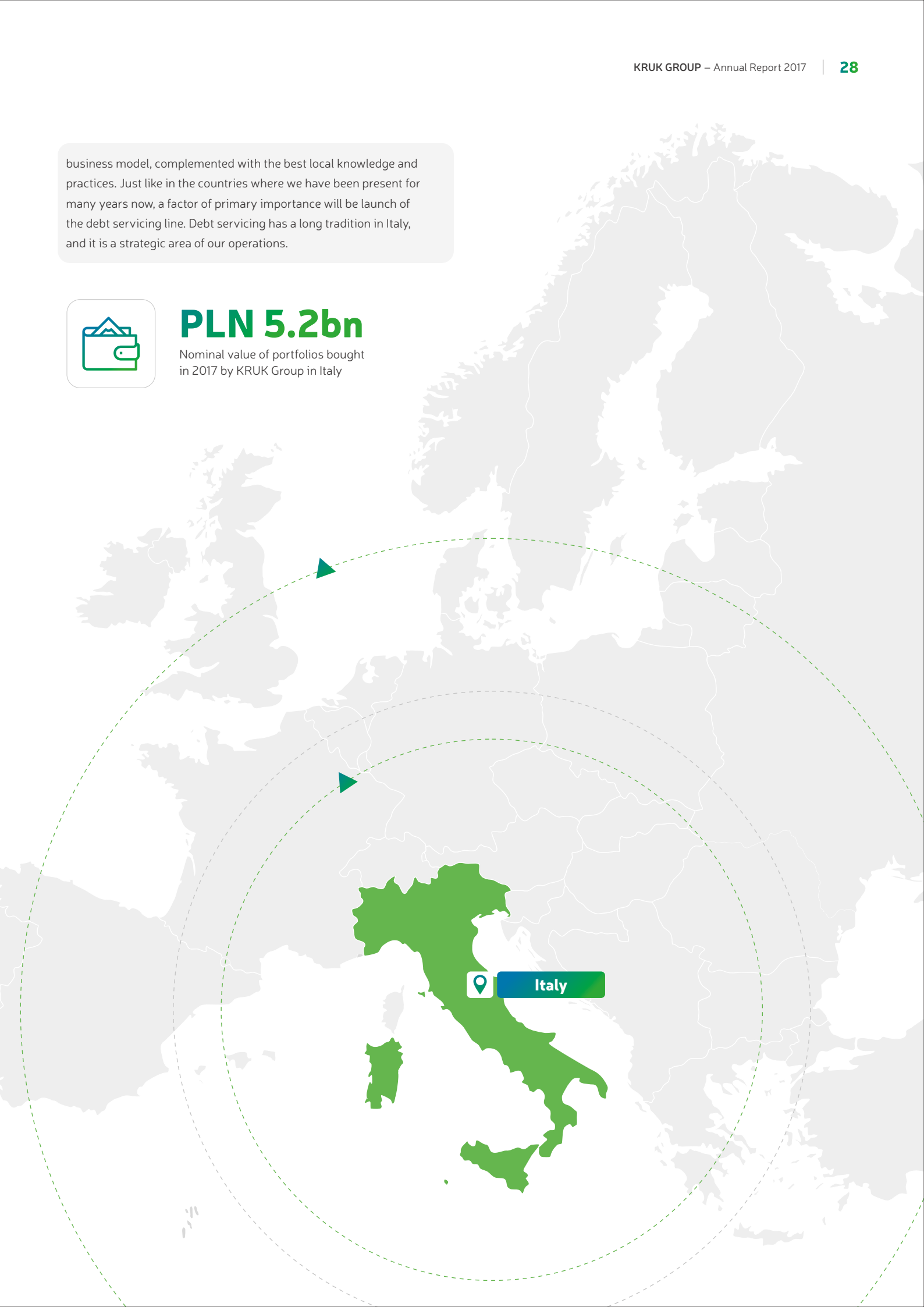
In the coming years KRUK is going to face challenges related to strong development in the area of unsecured consumer debts, which were the starting point of our operations in Italy, but also building a position in the corporate and SME debt segments. The KRUK team will work hard to set new quality standards on the market with our unique

business model, complemented with the best local knowledge and practices. Just like in the countries where we have been present for many years now, a factor of primary importance will be launch of the debt servicing line. Debt servicing has a long tradition in Italy, and it is a strategic area of our operations.



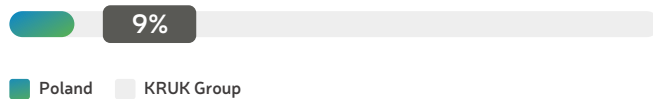
PLN 5.2bn

Nominal value of portfolios bought in 2017 by KRUK Group in Italy



D. Other

Share of portfolios purchased in Poland
in the carrying amount as at December 31st 2017



Investments in other markets (PLNm)



D.1. Spain

We have been present in Spain since 2015, when we established KRUK Espana S.L. and carried out the first valuations of portfolios on the Spanish market. In 2016, we purchased the first unsecured consumer portfolios and entered into an agreement to acquire Grupo Espand, a company managing purchased debt portfolios and offering credit management services in Spain, with consolidated revenue of EUR 4.1m in 2015. Earlier, we had cooperated with Espand on portfolio valuations and management of purchased debt portfolios. In 2017, we successfully integrated Grupo Espand in our operational structures.

According to the Spanish central bank, the aggregate value of loans advanced by the Spanish banking sector was about EUR 1.8 trillion at the end of 2016. The loss ratio was at 10%. Spain's unsecured retail debt market is one of Europe's largest in terms of nominal value. The main buyers are financial investors, who cooperate with local players in servicing of the purchased debt portfolios.

In 2017, KRUK invested PLN 77m in Spain, acquiring debt portfolios with a nominal value of some PLN 2.4bn. A year earlier, the respective amounts were PLN 82m and PLN 1.5bn.



Bartosz Kolek

General Director - Spain

What was the situation on the Spanish market in terms of investments?

We can see a stable high number of unsecured debt portfolio auctions, with the vast majority held in the last quarter of the year, as in previous years. In the area of secured debts, a new development was that in addition to very large portfolios, there was an emerging supply of relatively small ones. We also saw our competitors' strong interest in purchasing most of the portfolios that were offered for sale, which translated into a slight price growth.

What are the investment prospects for the coming years?

The Spanish central bank is consistently introducing regulations that impose more and more stringent obligations on banks in relation to provisioning for even quite fresh NPLs. In 2017, we already saw the effect of those measures as banks sold portfolios of debts with increasingly shorter past due periods. Most likely, another regulation will come into force this year, possibly resulting in even younger portfolios reaching the market. We also expect an even larger supply of portfolios from entities offering short- and long-term loans, which are relatively young on the Spanish market.

What major developments took place at the company last year?

In operational terms, in 2017 we achieved two key goals. First of all, in October we completed the merger of KRUK Espana and Espand purchased in December 2016. We also developed structures and processes that allow us to handle all types of unsecured cases – both in the consumer and corporate business line. We managed to build an organisation structure in which there was a place for experienced managers and employees from the local market as well as expats. Within 12 months, we doubled the number of employees, ending the year with a headcount of over 230. We built a contact centre which can handle all previously purchased portfolios. We also launched off-site structures, with a headcount currently over 30. They cover Spain's four most important regions inhabited by the majority of our clients.

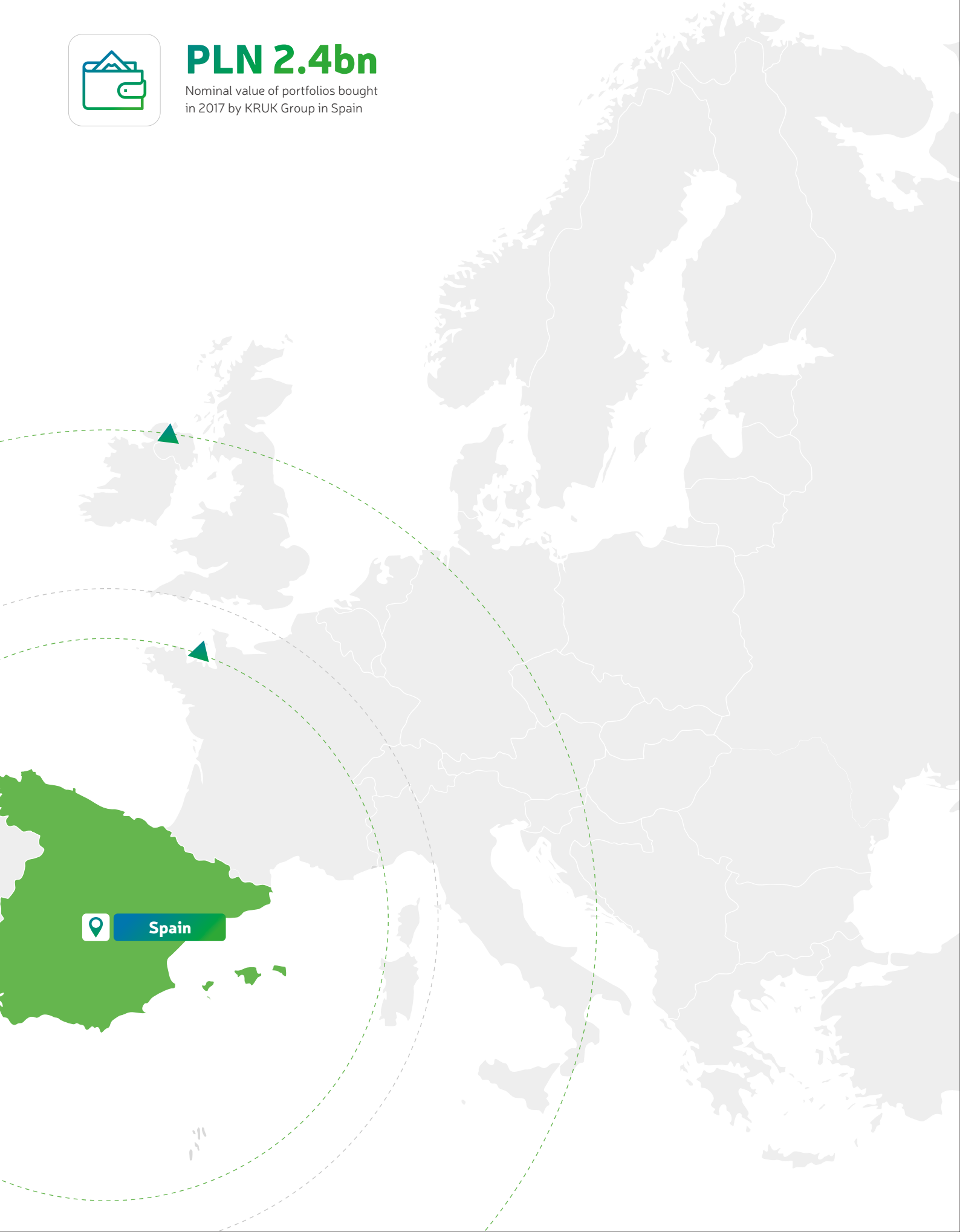
What will be the main challenges for the organisation in the coming year?

In 2018, the key challenge will be to further optimise management processes for purchased debt portfolios, in particular to reduce costs through automation and implementation of new IT tools. We will continue to analyse the effectiveness of individual stages and tools used in our process to constantly improve efficiency. At the same time, as we attach great importance to the debt servicing business line, we will search for new partners and expand cooperation with the existing ones.



PLN 2.4bn

Nominal value of portfolios bought in 2017 by KRUK Group in Spain



D.2. Germany

The Group has been present on the German market since 2014. In August 2015, we purchased our first debt portfolios on that market, continuing purchases in 2016 and 2017.

Germany has the largest banking system in Europe, with low levels of non-performing receivables. According to the German central bank, the total value of loans is approximately EUR 2.4 trillion, of which non-performing debts amount to approximately EUR 60bn. Based on publicly available information, loss ratios in Germany are at around 2-3% and have been stable for several years.

In 2017, KRUK invested in portfolios with a total nominal value of PLN 212m, compared with PLN 120m in 2016.

D.3. The Czech Republic and Slovakia

According to our estimates, the nominal value of consumer debt sold in the Czech Republic and Slovakia in 2016 was PLN 4.8bn. In the previous year, it amounted to PLN 1.7bn. Aggregate expenditure on debt portfolios in this segment totalled PLN 0.7bn, compared with PLN 0.3bn a year earlier. In each of the years 2017 and 2016, the KRUK Group spent a total of PLN 42m on consumer debt portfolios on both these markets.



Paulina Sapkowska

General Director – Germany, Czech Republic and Slovakia

What was the situation on the German debt management market?

Last year on the German market was not much different from the previous one, with the long-term trend of little volatility continuing. In the case of unsecured consumer debt portfolios sold in open auctions, we estimate the total supply at around EUR 2bn. At the same time, the competition on the market was intense and the demand significantly exceeded the supply. We estimate that in 2017 prices paid for portfolios could have increased by 20% year on year.

What are the prospects for the German market in the coming years?

We expect the current trend to continue in the coming years. The condition of Germany's economy, supported by measures taken by the European Central Bank, means that the supply of NPLs will remain stable.

What major developments took place at the company last year?

We focus on maximising the efficiency of our organisation. The markets in the Czech Republic and Slovakia are significantly smaller than in the other countries where KRUK operates, which is why efficiency is particularly important. In 2017, we managed to considerably reduce our cost-to-recovery ratio by better selection of cases to be submitted for resolution in court proceedings.

What will be the main challenges for your organisation in the coming years?

We are going to look at our processes and continue to optimise them, to reach a cost-to-recovery ratio on a par with the average for the Group. In addition, we intend to launch new initiatives for our clients. We want to motivate them in a positive way to repay their debts regularly.

What was the situation on the Czech and Slovakian markets in terms of investments?

The markets in the Czech Republic and Slovakia are highly competitive. We see a large number of players from different countries, including international investment funds. At the same time, the supply of portfolios from banks and other institutions was at a similar level to 2016.

What are the investment prospects for the coming years?

In addition to the stable supply of bank debt, we expect a growing number of auctions from non-bank institutions. In 2017, they already accounted for one-third of the portfolios sold. Additional supply should be generated by portfolios comprising debts of individuals who have decided to declare consumer bankruptcy, relatively new in this market.



PLN 212m

Nominal value of portfolios bought in 2017 by KRUK Group in Germany



PLN 178m

Nominal value of portfolios bought in 2017 by KRUK Group in The Czech Republic and Slovakia





Introduction

This Section presents key information on the KRUK Group, its selected consolidated financial and operating data, as well as an overview of the Group's operations in 2017.

General information on the Parent of the KRUK Group

Consolidated financial and operating highlights

Overview of the Group's operations in 2017



1.1

General information on the Parent of the KRUK Group

Form of incorporation of the Parent

The Parent of the KRUK Group is KRUK Spółka Akcyjna of Wrocław (the "Company").

The Company was established in 1998 as KRUK Spółka z ograniczoną odpowiedzialnością. Pursuant to a resolution of the Extraordinary General Meeting of June 28th 2005, KRUK Sp. z o.o. (limited liability company) was transformed into KRUK S.A. (joint-stock company) and on September 7th 2005 the transformed company was entered in the National Court Register – Business Register by the District Court for Wrocław Fabryczna of Wrocław, 6th Commercial Division of the National Court Register, under No. KRS 0000240829.

On May 5th 2011, the Company shares and allotment certificates for ordinary bearer shares were introduced to stock-exchange trading on the main market of the Warsaw Stock Exchange, by way of ordinary procedure, pursuant to the WSE Management Board's Resolutions No. 586/2011 and No. 587/2011.

[G4-3] [G4-5] [G4-7]

Parent contact details

Name: KRUK SPÓŁKA AKCYJNA
Registered address: Wołowska 8, 51-116 Wrocław, Poland
Telephone: 71 79 02 800
Fax: 71 79 02 867
Corporate website: <http://pl.kruk.eu/>

For the organisational chart of the KRUK Group, see Section 2.1.1. Description of the Group's structure.

1.2

Consolidated financial and operating highlights

1.2.1 Key consolidated financial results

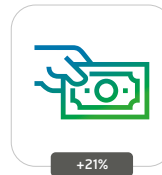
In 2017, the KRUK Group's financial performance continued on an upward trend. The Group posted



PLN 1,055m

in revenue

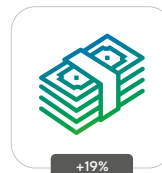
+35%



PLN 421m

in operating profit

+21%



PLN 295m

in net profit

+19%



Table 1. KRUK Group's financial performance in 2016–2017

	Period ended Dec 31		
	2017	2016	Change
	(PLN '000, unless stated otherwise)		
Revenue	1,055,453	783,398	35%
EBITDA	439,449	362,561	21%
Operating profit (EBIT)	420,771	349,023	21%
Net profit for period	295,198	248,677	19%
Cash flows from operating activities, including	-223,365	-629,595	-65%
Debt purchases	-976,509	-1,285,899	-24%
Cash recoveries	1,368,911	992,406	38%
Cash flows from investing activities	-19,520	-74,043	-74%
Cash flows from financing activities	148,784	823,816	-82%
Total net cash flows	-94,101	120,179	-
Total assets	3,560,128	3,095,697	15%
Equity	1,460,522	1,237,504	18%
Return on equity (ROE)	20%	20%	-
Earnings per share (PLN)			
Basic	15.74	14.08	12%
Diluted	15.31	13.55	13%

Source: Consolidated Financial Statements
 Return on equity (ROE) = net profit for the period / total equity

Table 2. Movements in purchased debt portfolios in 2017

	2017	2016
Value of purchased debt portfolios as at January 1st 2016		1,598,132
Purchase of debt portfolios		1,285,899
Purchase price adjustment for discount		(1,209)
Cash recoveries		(992,406)
Value of foreclosed property		(6,551)
Increase/(decrease) in liabilities to debtors due to overpayments		1,024
Valuation of loyalty scheme		5,173
Revenue from debt purchase (interest and revaluation)		724,931
Translation differences on debt portfolios		25,953
Value of purchased debt portfolios as at December 31st 2016		2,640,946
Value of purchased debt portfolios as at January 1st 2017		2,640,946
Purchase of debt portfolios		976,509
Purchase price adjustment for discount		(634)
Cash recoveries		(1,368,911)
Value of foreclosed property		(17,805)
Increase/(decrease) in liabilities to debtors due to overpayments		435
Valuation of loyalty scheme		5,749
Revenue from debt purchase (interest and revaluation)		971,789
Translation differences on debt portfolios		(87,516)
Value of purchased debt portfolios as at December 31st 2017		3,120,562

Source: Consolidated Financial Statements

1.3

Overview of the Group's operations in 2017

The KRUK Group is present in two key segments of the debt collection market:

- management of debt portfolios purchased for the Group's own account (including unsecured retail, mortgage-backed and corporate debt portfolios), and
- credit management services..

The Group's presence in both segments is an important competitive advantage as it offers operational synergies and helps mitigate the risk related to debt portfolio purchases thanks to additional statistical information obtained from the credit management business. Banks are the main group of the KRUK Group's clients.

Table 3. KRUK Group's workforce (FTEs*) in 2016–2017 (December 2016 and December 2017, Polish and foreign companies)

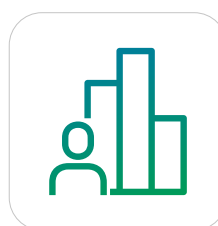
2017	2016
FTEs*	
3085.59	2664.52

* FTEs – the number reflected in the cost of salaries, calculated based on full time job equivalents rather than the actual number of employees. The figures are based on employment contracts, management contracts, cooperation agreements, and civil law contracts. Inactive employees (i.e. persons on long-term, such as maternity, leaves) are not included.
Source: Company

The workforce (FTEs) in all (Polish and foreign) Group companies at the end of 2017 totalled 3,085.59, relative to 2,664.52 at the end of 2016..

1.3.1 Financial performance

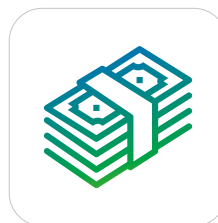
In 2017, the Group's revenue grew 35% year on year, to PLN 1,055m. In the same period, the KRUK Group reported a net profit of PLN 295m, up 19% year on year. Return on equity (ROE) reached 20%, relative to 24% in the previous year. The December 2016 issue of Series G shares was not included in the calculation of ROE for 2016. Detailed analysis of the financial results is presented in Section 3.2 Analysis of the consolidated financial data.



35%

Revenues growth in 2017

Below are presented key elements of the statements of profit or loss for the last five years. The Group's financial results have been steadily improving. From 2013, the Group's revenue rose 160% (CAGR of 27%), and net profit improved 202% (CAGR of 32%). Over the same period, EBIT and EBITDA went up 175% and 171%, respectively.



175%

EBIT's dynamics

Table 4. KRUK Group's financial performance in 2013–2017

(PLN '000)	2017	2016	2015	2014	2013	CAGR '17/'13
Revenue	1,055,435	783,398	611,234	487,920	405,611	27%
EBITDA	439,449	362,561	261,919	219,519	162,274	28%
Operating profit	420,771	349,023	251,379	208,161	152,945	29%
Profit before tax	335,184	286,348	209,777	152,838	98,487	36%
Net profit	295,198	248,677	204,261	151,802	97,754	32%

Source: Consolidated Financial Statements

1.3.2 Key financial ratios

Below are presented key profitability ratios of the KRUK Group for 2013–2017.

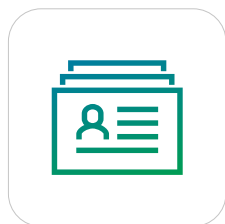
Table 5. Profitability ratios of the KRUK Group in 2013–2017

Rentowność	2017	2016	2015	2014	2013
EBITDA margin	42%	46%	43%	45%	40%
EBIT margin	40%	45%	41%	43%	38%
Pre-tax margin	32%	37%	34%	31%	24%
Net profit margin	28%	32%	33%	31%	24%
Return on assets (ROA)	8%	8%	11%	10%	8%
Return on equity (ROE)	20%	24%*	26%	26%	24%

*Equity exclusive of Series G shares issued in December 2016.
Source: In-house analysis based on the Consolidated Financial Statements.

1.3.3 Operating activities

As at the end of 2017, the KRUK Group managed 6.1m debt collection cases (in purchased portfolios and as part of credit management services), compared with 5.0m at the end of 2016. The nominal value of managed debts as at the end of 2017 was PLN 70.8bn, relative to PLN 40.5bn at the end of 2016. Summary of operating results is presented below.



6.1m

Number of cases under KRUK's Group management as at the end of 2017

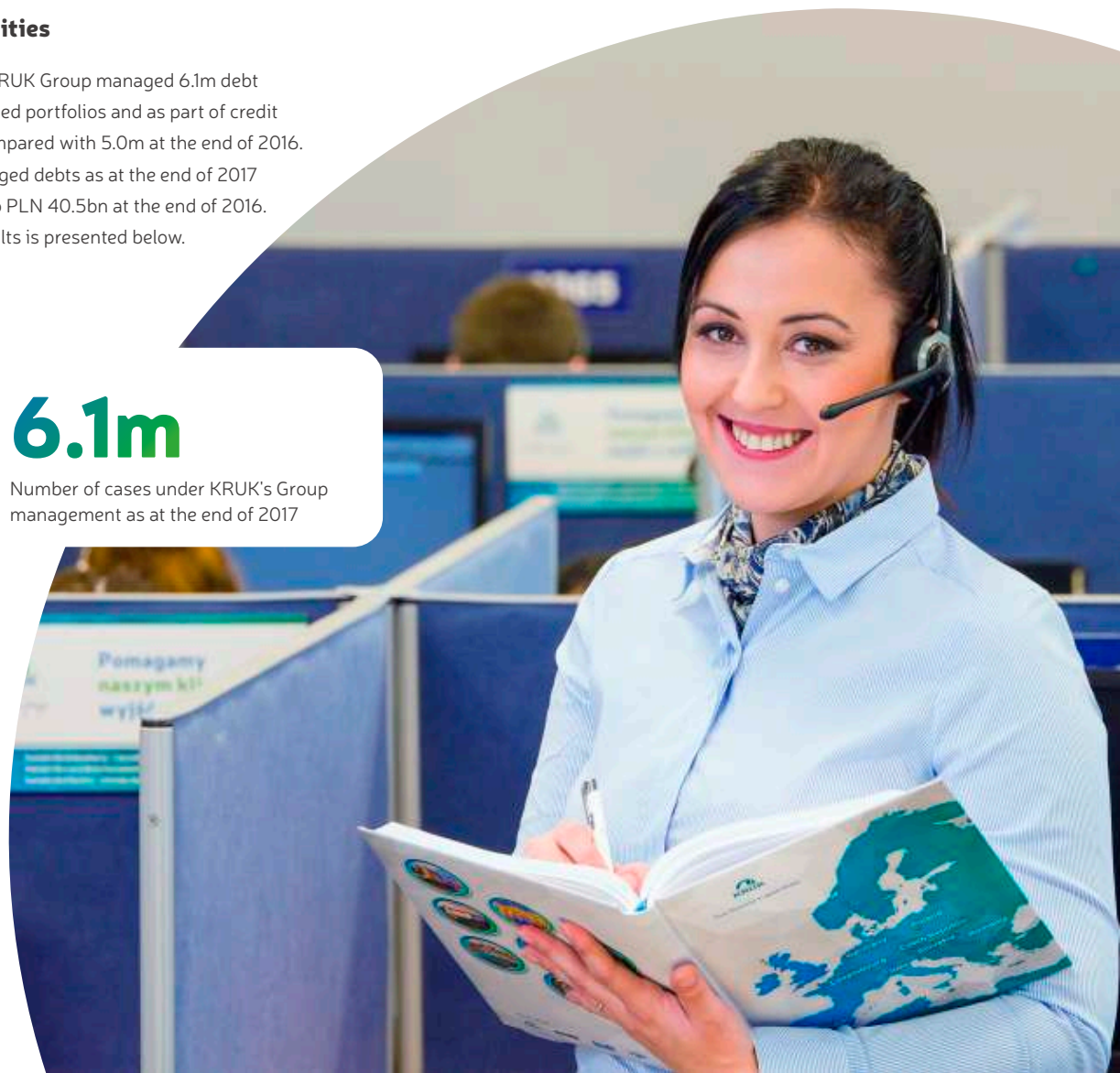


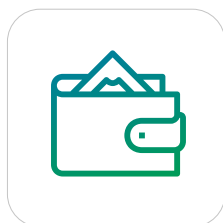
Table 6. Summary of operating results as at the end of 2017 and 2016

	Dec 31 2017	Dec 31 2016
Number of managed cases (millions)	6.1	5.0
Nominal value of managed cases (PLNbn)	70.8	40.5

Source: Company

1.3.4 Investments in debt portfolios

The increase in nominal value of managed debts in 2017 resulted mainly from significant investments in 139 debt portfolios with an aggregate nominal value of PLN 16.4bn and a total of 0.7m cases. In 2017, KRUK invested PLN 977m in bank and non-bank portfolios, comprising secured and unsecured consumer debts and corporate debts. To compare, in 2016 KRUK purchased 99 debt portfolios with a total nominal value of PLN 16.4bn for PLN 1.3bn.



In 2016 KRUK Group invested

PLN 1,283m

in 99 debt portfolios with a nominal value of PLN 16.4bn

In 2017, the Group purchased portfolios in Poland and six foreign markets: Romania, the Czech Republic, Slovakia, Germany, and Italy. The expenditure outside Poland amounted to PLN 701m (compared with PLN 856m in 2016). Summary data for debt portfolio purchases in 2016–2017 is presented below.

Table 7. Summary of debt portfolios purchased in 2016–2017

	2017	2016
Number of purchased debt portfolios	139	99
Nominal value of purchased debt portfolios (PLNm)	16,403	16,440
Expenditure on debt portfolios (PLNm)	977	1,286

Source: Company

Nearly 85% of the expenditure in 2017 was made in three markets (Italy, Poland, and Romania), chiefly on unsecured retail debt portfolios. KRUK also made investments in other countries: Spain, the Czech Republic, Slovakia and Germany.

Table 8. Expenditure in 2017 and 2016, by country (PLNm)

Kraj	2017	2016
Poland	275	427
Romania	262	379
The Czech Republic and Slovakia	42	42
Italy	287	322
Germany	32	34
Spain	78	82
Total	977	1,286

Source: Company

1.3.5 Credit management services

Throughout 2017, the nominal value of debts outsourced to the Group for collection was PLN 14.7bn (relative to PLN 4.3bn in 2016). In 2017, banks were the main clients of the credit management segment. Credit management services remain an important element of the Group's strategy as they are profitable and generate synergies with the debt purchase segment.

1.3.6 Other products and services

As part of its loss prevention services and to support debt management, the KRUK Group operates ERIF Biuro Informacji Gospodarczej (a credit reference agency), which collects both negative and positive consumer and corporate credit histories. ERIF operates under the Act on Access to Business Information and Exchange of Business Information, which defines the rules of operation of a business information exchange system in Poland. ERIF is one of the four business information agencies, but the only such agency in Poland to have its database reviewed quarterly by an independent auditor.

As at January 5th 2018, at the end of the year the ERIF database contained 32m records (including 29m positive credit information records), showing debts with a total nominal value of PLN 36bn. During the year, the figures went up by 408% and 32%, respectively. The significant increase in the number of records was attributable to the acquisition of one large client. Revenue generated from ERIF BIG's information services in 2017 was PLN 10.7m, having grown by 20% year on year.

In order to diversify its revenue sources, in 2017 the KRUK Group also worked on developing a short-term cash loan service for those individuals in Poland and Romania who have a track record of repaying their liabilities to the Group in a timely manner. In 2017, companies of the KRUK Group advanced 7.4 thousand cash loans with a value of PLN 44.3m. In 2017, revenue from the cash loan service amounted to PLN 12.9m, down 23% year on year, on account of a smaller number of loans sold and worse repayment rates versus the target.



General information

about the Group

Business model

Structure

Share capital

Human capital



2.1

Business model

For detailed information on the Group's business model, see *We have been building bridges between people for 20 years now.*

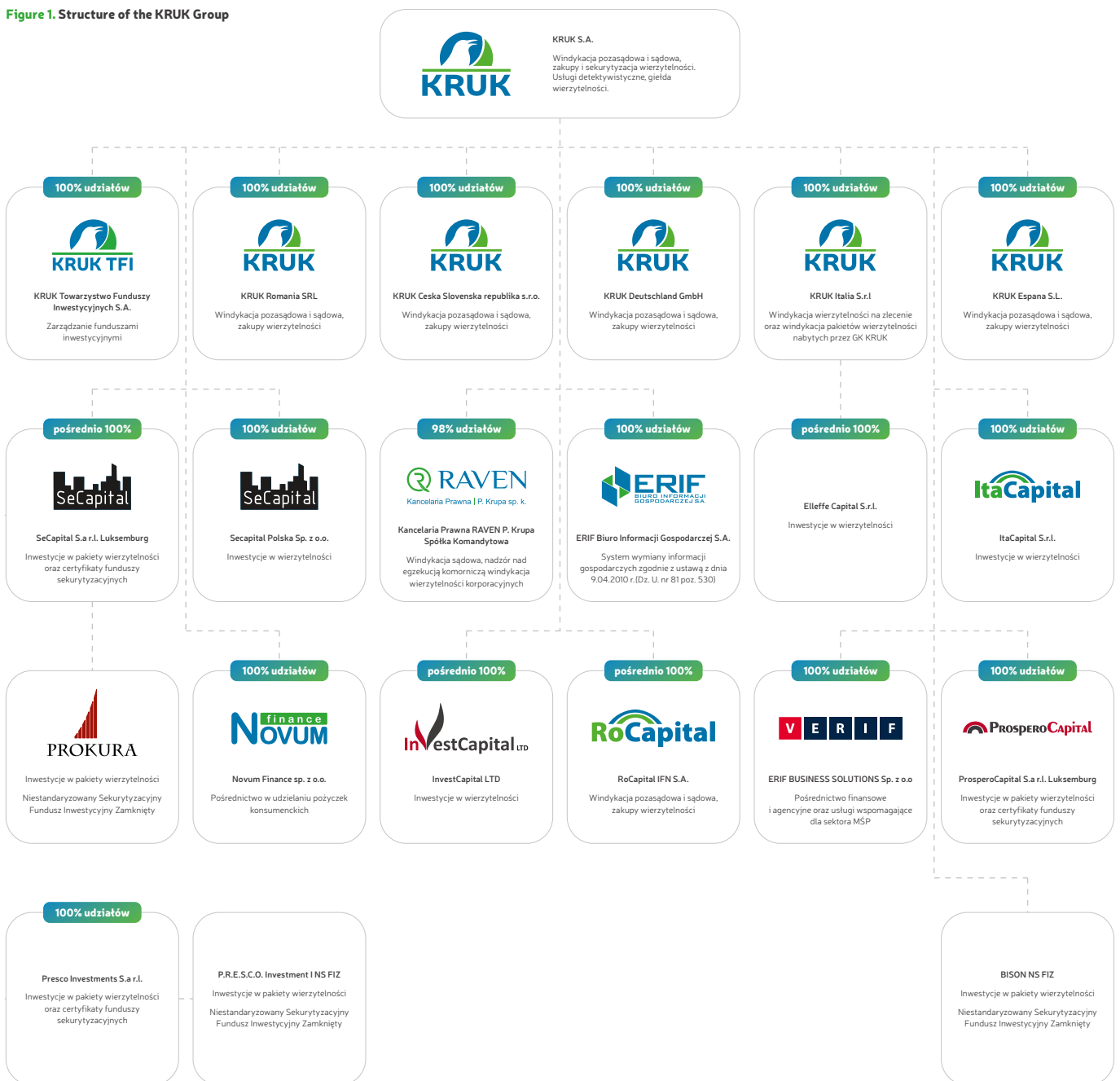
2.2

Structure

2.2.1 Description of the Group's structure

The structure of the KRUK Group as at December 31st 2017 and KRUK S.A.'s ownership interests in the subsidiaries are presented below.

Figure 1. Structure of the KRUK Group



As at December 31st 2017, the Group comprised KRUK S.A. (the Parent) and 21 subsidiaries.
The subsidiaries are presented below.

Table 9. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna Raven P. Krupa sp. k	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK ROMANIA S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a.r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Fundusz sekurytyzacyjny Prokura NS FIZ	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Secapital S.a.r.l.
Secapital Polska sp. z o.o.	Wrocław	Management of securitised debt
ERIF Business Solutions sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds.
InvestCapital Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy and other European countries

Subsidiary	Registered office	Principal business activity
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Espana S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
ProsperoCapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Fundusz sekurytyzacyjny P.R.E.S.C.O. Investment I NS FIZ	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Presco Investments S.a r.l.
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
Bison NS FIZ	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.

Source: The KRUK Group

[G4-4] [G4-6] [G4-8] [G4-9] [G4-17]

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

By the date of authorisation of this report, the composition of the KRUK Group and the above information on the Group companies had not changed.

2.2.2 Changes in the Group's structure in 2017

Below is presented a description of changes in the Group's structure that occurred in 2017 and by the date of this report.

On June 22nd 2017, a notarial deed concerning the merger of two subsidiaries of KRUK S.A. – Credit Base International S.r.l. and KRUK Italia S.r.l. – was signed. In accordance with the deed, the merger was effected on July 3rd 2017 by KRUK Italia S.r.l. taking over all assets, rights and obligations of Credit Base International S.r.l.

On October 1st 2017, a notarial deed concerning the merger of two subsidiaries of KRUK S.A. – ESPAND SOLUCIONES DE GESTION S.L. and KRUK ESPAÑA S.L. – was signed. In accordance with the deed, the merger was effected on October 1st 2017 by ESPAND SOLUCIONES DE GESTION, S.L. taking over all assets, rights and obligations as well as the name of KRUK ESPAÑA S.L.

On October 12th 2017, an agreement whereby KRUK S.A. acquired 100% of investment certificates issued by BISON Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty was signed. On the same day, Copernicus Capital TFI S.A. and KRUK TFI S.A. signed an agreement for taking over the management of Bison NSFIZ.

On October 27th 2017, the Company was notified that ProsperoCapital sp. z o.o. w likwidacji (in liquidation) was deleted from the Register of Entrepreneurs of the National Court Register following the closing of liquidation proceedings.

On November 27th 2017, the name of InvestCapital Malta Ltd. (a KRUK Group entity) was changed to InvestCapital Ltd.

On December 14th 2017, an annex to the Articles of Association of the limited partnership Kancelaria Prawna RAVEN – Krupa & Stańko Spółka komandytowa was signed, in the form of a notarial deed.

In accordance with the annex, the new name of the company is 'Kancelaria Prawna Raven P. Krupa Spółka komandytowa', and the Partners' shares in the partnership's assets are as follows:

- Piotr Krupa – 2%,
- Spółka KRUK S.A. – 98%.

Piotr Krupa is the only general partner of the partnership. KRUK S.A. has remained the only limited partner. The value of the limited partnership and the agreed contribution remain unchanged.

After the reporting date, on January 8th 2018, the Articles of Association of Zielona Perła sp. z o.o., with the share capital of PLN 4.6m, were signed. The company is wholly owned by KRUK S.A. and has its registered address at ul. Wołowska 8, Wrocław, Poland. Its principal business activity is buying and selling of own real estate and renting and operating of own or leased real estate.

2.2.3 Changes in the Group's significant management policies

In 2017, there were no changes to any significant policies of managing the Parent and its subsidiaries.

2.2.4 Consolidated entities

All Group entities are fully consolidated.

2.2.5 Company branches

The Company has no branches.

2.3

Share capital

2.3.1 Share capital structure

As at December 31st 2017 and the issue date of this report, the Company's share capital totalled PLN 18,807,900 and was divided into 18,807,900 shares with a par value of PLN 1 per share.

2.3.2 Changes in the share capital and conditional share capital

The table below presents changes in the share capital of KRUK S.A. in 2017

Table 11. Changes in the share capital of KRUK S.A. in 2017

Date of registration of the shares with the CSDP	Number of new shares	Series	Basis for the increase	Share capital after the change (number of shares)	Details
February 7th 2017	1,000,000	Series G	Resolution No. 4/2016 of the Extraordinary General Meeting of November 29th 2016	18 744 216	CR No. 8/2017
December 12th 2017	63,684	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18 807 900	Issue as part of a conditional share capital increase, Current Report No. 56/2017

Table 10. The Company's share capital as at December 31st 2017 and the issue date of this report

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	843,876
Series F	63,684
Series G	1,000,000
TOTAL	18,807,900

Source: Company

[G4-10]

2.4

Human capital

2.4.1 Qualified personnel

A key success factor for the KRUK Group is its highly qualified staff. The Group employs specialists with extensive debt management experience. The table below presents the Management Board of KRUK S.A.

Table 12. The Management Board of KRUK S.A.

The Management Board of KRUK S.A.



Piotr Krupa

CEO and President of the Management Board

Co-founder of the Company, and President of its Management Board since 2003. Graduate of the Faculty of Law and Administration at the University of Wrocław (1996). Mr Krupa completed legal training in court and is a legal counsel and a licensed detective.

His started his professional career in 1997 as a partner in Kuźnicki i Krupa s.c. A year later, he set up a legal publishing house KRUK, with a friend from college. Soon he noticed a promising market niche that became the foundation of his future business achievements. He changed the company's business profile and focused on debt management.

Today he is the CEO and shareholder of the largest debt management group in Central Europe, which is growing fast in Poland, Romania, the Czech Republic, Slovakia, Germany, Italy and Spain.

Agnieszka Kułton

Member of the Management Board

With KRUK since 2002. Member of the Management Board since 2006. Graduate of the Faculty of National Economy at the University of Economics in Wrocław (1995). In 2013, she completed MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio.

At the KRUK Group, she is responsible for the management of purchased debt portfolios.



Iwona Słomska

Member of the Management Board

With KRUK since 2004. Member of the Management Board since 2009. Graduate of the Faculty of Social Sciences of the University of Wrocław (1995). In 2000, she completed Polish-American Studies in Social Communication in Organisation and Management at the Wrocław University of Technology, and in 2010 – MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio.

At the KRUK Group, she is responsible for human resources, marketing and PR, legal services and compliance, as well as security of personal data.

Urszula Okarma

Member of the Management Board

With KRUK since 2002. Member of the Management Board since 2006. In 1998, she graduated from the Faculty of National Economy at the University of Economics in Wrocław, with a degree in finance and banking.

At the KRUK Group, she is responsible for strategic transactions, relations with trading partners and credit management services.

Michał Zasępa

Member of the Management Board

Member of the Supervisory Board of KRUK S.A. from 2005 to 2010, member of the Management Board since 2010. In 2000, he graduated from the Warsaw School of Economics, with a degree in management and marketing. In 1996-1997, he studied at the University of Wisconsin as part of the Batory Foundation Scholarship, and in 1999 at the Stockholm School of Economics.

At the KRUK Group, he is responsible for finance, risk, portfolio valuations and investor relations.

Members of the Company's Management Board and other key personnel of the Group are a strong team of over one hundred experts in such areas as credit management, finance, high-volume process management, debt portfolio valuation, legal support, sales, HR management, IT, marketing, and public relations. The stability of the Group's management team, manifest in low staff turnover, combined with extensive expertise developed over the years, are a source of major competitive advantage for the Group. The Management Board and key managers are also covered by an attractive incentive scheme. Approximately 13% of the shares are held by the Management Board members.

It should be also noted that the Group places strong focus on promoting the KRUK Group as an employer. Recruitment and employer branding efforts are aimed at reaching the largest possible group of potential employees, informing them about the Group's operations and increasing their awareness of opportunities for professional growth within the Group. An excellent illustration of such efforts is our participation in a campaign promoting employers from the Wrocław Province: RELIABLE EMPLOYER – Wrocław Province employs! organised by the Gazeta Wyborcza daily. In 2017, the KRUK Group continued its cooperation with the academic community, participating in numerous meetings with students of higher education institutions based in Wrocław and other cities, both as part of job fairs and projects organised jointly with student career centres. As part of this cooperation, the KRUK Group employees also provided courses and theme lectures for students/members of academic societies. In addition, the Group took the first place in the fourth edition of HR INNOVATOR 2017, a nationwide HR competition for companies that implement innovative HR management projects. The award was granted for the KRUKLIGON project (a tool supporting the development of field employees). KRUK is also a signatory of the "Diversity Charter".

Table 13 sets out the Group's employment data (full- and part-time positions under employment contracts) as at the dates indicated.

Table 12. Group's workforce in Poland as at December 2017 and 2016 in FTEs*

	2017	2016
FTEs	3,085.59	2,664.62

Source: Company

Table 14 presents the Group's employment data in FTEs (employment contracts and other forms of employment or cooperation) by key geographical regions of the Group's operations.

Table 13. Group's workforce (FTE*) by geographical region in December 2016 and December 2017.

Geographical regions	2017	2016
Poland	1,773.79	1,721.29**
Foreign markets	1,311.80	943.23***
TOTAL	3,085.59	2,664.52

* FTEs – the number reflected in the cost of salaries, calculated based on full time job equivalents rather than the actual number of employees. The figures are based on employment contracts, management contracts, cooperation agreements, and civil law contracts. Inactive employees (i.e. persons on long-term, such as maternity, leaves) are not included.

** Including KRUK DE, Polish Branch

*** Without KRUK DE, Polish Branch

Source: Company



Number of employees by type of employment and gender

Type of employment	Women	Men	TOTAL
Internships	20	7	27
Contract of employment	1,969	1,259	3,228
Cooperation agreement	34	26	60
Management contract	17	25	42
Self-employment	3	4	7
TOTAL	2,043	1,321	3,364

Number of employees employed for an indefinite period by type of employment and gender

Type of employment	Women	Men	TOTAL
Contract of employment	1,345	894	2,239
Cooperation agreement	14	10	24
TOTAL	1,359	904	2,263

Number of employees by type of position (managerial and other) and gender

Type of employment	Women	Men	TOTAL
Managers, directors, President of the Management Board	231	194	425
Other	1,810	1,129	2,939
TOTAL	2,041	1,323	3,364

As highly-qualified staff is its vital asset, the Group makes every effort to ensure development of its team and provide optimum working conditions. In 2017, the Group operated:

- an extensive internal training system, designed to improve the personnel's sales techniques, negotiating skills and knowledge of legal and psychological aspects of the debt collection process,
- a management training programme for the Group's entire management staff, designed to develop managerial competences and expand the necessary knowledge.

The Group has in place a remuneration management policy, which is a component of informed planning of employee remuneration and is designed to control the increase in employment levels in line with the Group's strategy. The policy applies to all of the Group's employees and forms the foundation for an effective, uniform and transparent remuneration system designed to support the implementation of business objectives.

2.4.2 Incentive Scheme

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

The 2015–2019 Scheme is addressed to the key management personnel of KRUK S.A. and the other Group companies.

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

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

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares.

The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares from all days of trading in Company shares in the period February 27th 2014 – May 27th 2014.

Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas the Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up on subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021. Subscription warrants will be issued in five tranches, one for each year of the reference period, i.e. for the financial years 2015–2019.

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an annualised average basis, by no less than 13% relative to the base year. Under the Scheme, the Company may finance purchase of Series F shares by eligible persons on the terms defined in the resolution.

Subscription warrants may be inherited, but may not be encumbered and are not transferable. By way of its resolution of September 8th 2014, the Supervisory Board determined and approved Rules for the Management Stock Option Scheme for 2015–2019.

Tranche 1

On June 9th 2016, the Supervisory Board of KRUK S.A. passed a resolution confirming the fulfilment of the condition set forth in the Stock Option Scheme for offering Subscription Warrants under Tranche 1 for 2015. On June 17th 2016, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015–2019 Stock Option Scheme. On this basis, on June 22nd 2016, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 1 Subscription Warrants. 86,435 subscription warrants were delivered to the Eligible Persons on July 1st 2016.

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

By the issue date of this report, 63,684 warrants were converted into newly issued Series F shares in the Company. Thus, 42,751 Tranche 1 Subscription Warrants, entitling their holders to subscribe for the same number of Series F shares, are held by the eligible persons. 20,000 of those warrants are held by the Management Board members.

Tranche 2

By way of the resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Stock Option Scheme for offering subscription warrants under Tranche 2 for 2016 had been met. On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Stock Option Scheme. On this basis, on July 4th 2017, the Management Board invited the Eligible Persons other than Management Board members to acquire Tranche 2 subscription warrants. 91,467 subscription warrants were delivered to the Eligible Persons on July 7th 2017.

On August 1st 2017, the Company's Management Board passed a resolution to change the list of Management Board members eligible to participate in the 2015–2019 Stock Option Scheme. The resolution was approved by the Supervisory Board on August 7th 2017. By its Resolution of August 10th 2017, the Management Board determined the list of Management Board members eligible to acquire Tranche 2 Subscription Warrants for 2016. On this basis, the Supervisory Board invited the eligible Management Board members to acquire Tranche 2 Subscription Warrants under the 2015–2019 Scheme. On August 22nd 2017, 50,480 Subscription Warrants were delivered to the Eligible Persons who were Management Board members.

The Management Board members hold no rights to KRUK shares other than those attached to the subscription warrants presented below.

Table 14. Number of subscription warrants held by Management Board members as at December 31st 2017

Name and surname	Position	Number of warrants held under Tranche 1 and 2 for 2015 and 2016
Piotr Krupa	CEO and President of the Management Board	17,820
Agnieszka Kul-ton	Member of the Management Board	13,165
Urszula Okarma	Member of the Management Board	13,165
Iwona Słomska	Member of the Management Board	13,165
Michał Zasepa	Member of the Management Board	13,165







Operating and financial review

Policies applied in the preparation of full-year
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3.1

Policies applied in the preparation of full-year consolidated financial statements

The Parent’s consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (the “EU-IFRS”).

The accounting policies have been applied with respect to each of the reporting periods presented in the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, save for purchased debt portfolios which are measured at fair value through profit or loss, and hedging derivative instruments.

Purchased debt portfolios comprise high-volume portfolios of overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under debt assignment agreements for prices lower than their nominal value. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages the portfolios and results of these operations are assessed based on their fair value.

Purchased debt portfolios are initially recognised at acquisition cost. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period.

Since 2014, the Group has been measuring its debt portfolios at amortised cost. Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred increased by any material transaction costs.

The amortised cost of an asset is the amount at which the asset is measured on initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the acquisition price, and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit or loss for the current period.

All interest income is recognised as an increase in the portfolio value. All recoveries collected during the period are recognised as a decrease in the portfolio value.

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

3.2

Analysis of the consolidated financial data

3.2.1 Revenue by product

The main sources of revenue for the KRUK Group are credit management services and debt purchase activities. Revenue from debt purchase includes interest income plus revenue from the difference on recoveries (difference between actual and assumed cash recoveries), and effects of debt portfolio revaluations, resulting primarily from a change in estimates of expected cash inflows from a given portfolio. Revenue from credit management services includes primarily commissions for collection of debt managed by the Group.

Table 15. Weighted average recovery curve in 2005–2017*

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Cash recoveries in each of the years as % of funds spent	16%	37%	34%	33%	34%	33%	32%	34%	26%	21%	23%	24%	11%	347%

Source: Company
 * - The assumed recovery amount for portfolios purchased in 2015–2017 relative to the expenditure incurred during that period is 1.9x. The recovery amount is the aggregate of historical recoveries and forecast future recoveries, presented in Note to the financial statements.

Below are presented historical cash recoveries from purchased debt portfolios according to their share in the expenditure incurred on their purchase.

The Group's total revenue for 2017 was PLN 1,055m, up 35% on 2016. The Group continued to pursue the strategy of consolidating its lead in the growing debt collection market. In 2017, the Group focused

on collection of debts purchased for the Group's own account. As a consequence, revenue from debt purchase in 2017 reached PLN 972m. In 2017, revenue from credit management amounted to PLN 59m.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit.

Table 16. Performance of individual reporting segments

For the year ended December 31st 2017	Poland	Romania	Italy	Other foreign markets	Total
Revenue	551,925	436,158	13,281	54,090	1,055,453
Purchased debt portfolios	501,693	427,192	9,446	33,412	971,743
Collection services	25,751	8,839	3,835	20,678	59,102
Other products	24,481	127	-	-	24,608
Direct and indirect costs					(466,034)
Purchased debt portfolios	-	-	-	-	(412,505)
Collection services	-	-	-	-	(44,210)
Other products	-	-	-	-	(9,319)
Gross profit					589,419
Purchased debt portfolios	-	-	-	-	559,238
Collection services	-	-	-	-	14,892
Other products	-	-	-	-	15,289
Administrative expenses	-	-	-	-	(147,910)
Depreciation and amortisation	-	-	-	-	(18,677)
Other income	-	-	-	-	5,879
Other expenses (unallocated)	-	-	-	-	(7,957)
Finance income/costs	-	-	-	-	(85,587)
Profit before tax	-	-	-	-	335,184
Income tax	-	-	-	-	(39,987)
Net profit	-	-	-	-	295,198
Carrying amount of debt portfolios	1,434,171	857,117	534,377	294,897	3 120,562

For the year ended December 31st 2016	Poland	Romania	Italy	Other foreign markets	Total
Revenue	423,766	311,917	9,073	38,642	783,398
Purchased debt portfolios	370,667	307,058	9,073	38,133	724,931
Collection services	26,831	4,859	-	509	32,199
Other products	26,268	-	-	-	26,268
Direct and indirect costs					(306,841)
Purchased debt portfolios	-	-	-	-	(270,665)
Collection services	-	-	-	-	(23,283)
Other products	-	-	-	-	(12,894)
Gross profit					476,556
Purchased debt portfolios	-	-	-	-	454,266
Collection services	-	-	-	-	8,916
Other products	-	-	-	-	13,374
Administrative expenses	-	-	-	-	(117,267)
Depreciation and amortisation	-	-	-	-	(13,538)
Other income	-	-	-	-	8,773
Other expenses (unallocated)	-	-	-	-	(5,501)
Finance income/costs	-	-	-	-	(62,675)
Profit before tax	-	-	-	-	286,347
Income tax	-	-	-	-	(37,671)
Net profit	-	-	-	-	248,676
Carrying amount of debt portfolios	1,318,110	751,692	342,130	229,014	2,640,946

Source: Company
* Gross profit -

In 2017, the Group's gross profit was PLN 589m, having risen by PLN 113m, or 24%, on 2016. This strong growth in gross profit was attributable to the result on purchased debt portfolios, with the key contributing factor being high investments made in this market segment both in 2017 and in previous years (in total, over the last five years the Group invested PLN 3.7bn in new debt portfolios).

Revenue derived from purchased debt portfolios rose by 34%, which translated into improved gross profit of the debt purchase segment (up 23% year on year).

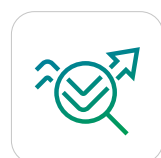
Gross profit earned by the credit management segment increased by PLN 6m, or 67%, relative to 2016.

The Group's presence in both market segments (purchased debt portfolios and credit management) is an important competitive advantage as it offers operational synergies and helps mitigate the risk related to debt portfolio purchases thanks to additional statistical information obtained from the credit management business.

3.2.2 Geographical structure of sales

The Group operates on seven geographical markets, divided into four markets:

- Poland
- Romania
- Italy
- Other (the Czech Republic, Slovakia, Germany, Spain)



PLN 128m

Growth of revenues in Poland in 2017

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

In 2017, the KRUK Group's revenue rose significantly in Poland, Romania, Italy, and in other markets.

In value terms, the largest increase in revenue was seen in Poland and Romania. Revenue generated on the home market in 2017 was PLN 128m, or 30%, higher year on year, while revenue in Romania grew PLN 124m, or 40%, on the prior year, mainly on the back of strong recovery rates recorded in these markets and debt portfolio purchases made by the Group in 2017 and previous years.

In Italy, the Group reported revenue of PLN 13m, up PLN 4m year on year. The first portfolio in Italy was purchased in December 2015, with the total portfolio investments made in the period from December 2015 to December 2017 amounting to PLN 631m.

3.2.3 Structure of assets and liabilities in the consolidated statement of financial position

The Group's total assets were PLN 3,560m, having grown 15% relative to the end of 2016.

Table 17. Group's assets

Assets	Dec 31 2017	Dec 31 2016
Cash and cash equivalents	173,284	267,384
Trade receivables	16,623	13,452
Investments	3,169,303	2,676,202
Other receivables	64,244	28,145
Inventories	494	485
Property, plant and equipment	28,669	27,473
Goodwill	54,003	62,604
Other intangible assets	26,830	14,293
??????????????	8,637	-
Other assets	18,042	5,658
Total assets	3,560,128	3,095,697

Source: Company

The largest increase was posted under investments, and was attributable to debt portfolio purchases. As funds had to be raised to finance the debt purchases, an increase was also recorded in debt under bank borrowings and other debt instruments (up by PLN 251m).

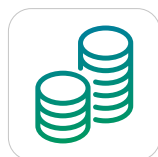
In 2017, the Group purchased debt portfolios for a total of PLN 977m, which means that 74% of the purchases were financed with the Group's own funds.

Table 18. Group's equity and liabilities

Equity and liabilities	As at December 31st 2017 (PLN '000)	
	December 31st 2017 r.	December 31st 2016 r.
Liabilities		
Hedge derivatives	1,375	-
Trade and other payables	143,449	169,248
Employee benefit obligations	28,715	34,396
Income tax payable	14,401	4,079
Liabilities under borrowings and other debt instruments	1,897,223	1,646,411
Deferred tax liability	14,444	4,057
Total liabilities	2,099,607	1,858,191
Equity		
Share capital	18,808	18,744
Share premium	293,581	288,326
Cash flow hedging reserve	5,882	-
Exchange differences on translating foreign operations	(56,619)	(592)
Other capital reserves	86,805	76,658
Retained earnings	1,111,961	854,354
Equity attributable to owners of the Parent	1,460,418	1,237,490
Non-controlling interests	104	14
Total equity	1,460,522	1,237,504
Total equity and liabilities	3,560,128	3,095,697

Source: Company

3.2.4 Financial performance



PLN 295m

KRUK Group net profit for 2017

There are no material risks to the KRUK Group's current or future financial position. In 2017, the Group's net profit was PLN 295m, up PLN 47m (19%) year on year.

In 2017, the Group invested PLN 977m in the debt purchase segment.

Table 19. Consolidated statement of profit or loss

	For the year ended December 31st 2017 (PLN '000)	
	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revenue	1,055,453	783,398
Other income	5,896	8,773
Total	1,061,349	792,171
Employee benefits expense	(257,013)	(190,778)
Amortisation	(18,677)	(13,538)
Services	(134,462)	(79,415)
Other expenses	(230,426)	(159,417)
Total	(640,578)	(443,148)
Operating profit	420,771	349,023
Finance income	310	363
Finance costs	(85,897)	(63,038)
Net finance costs	(85,587)	(62,675)
Profit before tax	335,184	286,348
Income tax	(39,987)	(37,671)
Net profit for period	295,198	248,677
Net profit attributable to:		
Owners of the Parent	295,095	248,663
Non-controlling interests	103	14
Net profit for period	295,198	248,677

Source: Company

3.2.5 Cash flows

The Group's financing and cash management policy is based on:

- financing debt purchases with internally generated funds, bank borrowings, bonds and other debt instruments;
- leasing property, plant and equipment and intangible assets or financing them with internally generated funds;
- financing other operations with internally generated funds.

The Group holds cash in PLN, EUR, RON and CZK.

The main sources of the Group's operating cash flows are related to changes in purchased debt portfolios, disclosed under 'Movements in purchased debt portfolios'.

As the Group recognises debt purchases under operating activities, its investing activities related to the purchase of debt portfolios and the related increase in the fair value at which the purchased debt portfolios are carried reduce net cash from operating activities.

3.2.6 Material off-balance sheet items by counterparty, subject matter and value

The KRUK Group did not have any material off-balance sheet items in 2017.

3.2.7 Financial ratios

3.2.7.1 Profitability ratios

Table 20 below presents the key profitability ratios of the KRUK Group.

Table 20. Profitability ratios

Profitability ratios	Period ended	
	Dec 31 2017	Dec 31 2016
EBITDA margin	42%	46%
EBIT margin	40%	45%
Pre-tax margin	32%	37%
Net margin	28%	32%
Return on assets (ROA)	8%	8%
Return on equity (ROE)	20%	24%*

Source: Company.

Formulas used to calculate the ratios:

EBITDA margin – operating profit for the period + depreciation/amortisation / total revenue

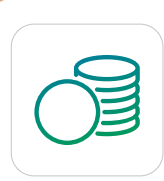
EBIT margin – operating profit for the period / total revenue

Pre-tax margin – profit before tax for the period / total revenue

Net margin – net profit for the period / total revenue

ROA – net profit for the period / total assets

*Return on equity (ROE) 2016 = net profit for the period/total equity (excluding Series G shares issued in December 2016)



34%

Wzrostu przychodów w roku 2017, w porównaniu do roku poprzedniego

In 2017, the KRUK Group's pre-tax, EBITDA and EBIT margins declined year on year by 5pp. Net margin and return on equity decreased by 4 pp. The drop in profitability is primarily due to higher costs incurred by the Group. In 2017, operating expenses increased 45% year on year, while revenue grew 34%. The increase in operating expenses should be considered as an investment that will generate higher revenue in future periods.

3.2.7.2 Debt ratios

The table below presents the key debt ratios of the KRUK Group.

Table 21. Debt ratios

	Period ended	
	Dec 31 2017	Dec 31 2016
Total debt ratio	59%	60%
Debt to equity ratio	143%	150%
Net debt to equity ratio	1.2x	1.1x
Net debt to cash EBITDA ratio	2.1x	2.2x
Current ratio	7.7	6.3
Quick ratio	7.7	6.3

Source: Company

Formulas used to calculate the ratios:

Total debt ratio – total liabilities / total equity and liabilities

Debt to equity ratio – total liabilities / total equity

Net debt to equity ratio = (long-term and short-term liabilities under borrowings and other debt instruments – cash and cash equivalents) / total equity

Net debt to cash EBITDA ratio = (long-term and short-term liabilities under borrowings and other debt instruments – cash and cash equivalents) / cash EBITDA

Current ratio – total current assets / total current liabilities

Quick ratio – (total current assets - inventories) / total current liabilities

The Group's objective is to maintain a solid capital base to ensure business growth, while maintaining the trust and confidence of investors, lenders, bondholders and other partners. In order to control the Group's exposure to financial debt, the Management Board of KRUK S.A. monitors the debt ratios on an ongoing basis.

In 2017, the ratios changed only slightly and, in the Management Board's opinion, remained at safe levels. For instance, debt ratios measured for the entire Group, specified in the Terms and Conditions of Bonds, were as follows: the net debt to equity ratio stood at 1.2 (the maximum levels are 3.0x for the majority of private placements and 2.5x for issues with a total nominal value of PLN 160m, of which PLN 115m matures in 2018), while the net debt to cash EBITDA ratio was 2.1 (the maximum level is 4.0x).

The quick and current ratios are determined by the nature of assets from purchased debt portfolios which, although recognised as current assets, will be used in operating activity within more than 12 months.

3.3

Securities in issue

3.3.1 Company shares

For information on the Company shares, see Section 2.3.2. Changes in share capital and conditional share capital.

3.3.2 Company bonds

In 2017, the Company privately placed two bond issues with a total value of EUR 40m. The bonds were issued at par (EUR 1,000 per bond).

Table 22. Bond issues in 2017

	Bond Series	
	AE ¹	AE ²
Nominal value	EUR 20.0m	EUR 20.0m
Issued	May 2017	June 2017
Redeemed	May 2022	June 2022
Interest rate	fixed 3.59%	fixed 3.59%
Interest payment	every 12 months	every 12 months

Source: Company

Redemption of bonds

In 2017, the Company redeemed the debt securities specified in Table on the maturity dates set forth in the terms and conditions of the relevant series.

Table 23. Bonds redeemed by the Company in 2017

Bond Series	Redeemed	Number of bonds redeemed	Nominal value
P ² + P ³	March 2017	60,000	PLN 60m
P ⁴ + R ¹	May 2017	60,000	PLN 60m
T ¹	December 2017	150,000	PLN 15m
			total: PLN 135m

Source: Company

Liabilities under bonds

As at December 31st 2017, the liabilities under outstanding bonds issued by the Company stood at PLN 1,402m (at nominal value.)

3.4

Financial instruments

3.4.1 Use of financial instruments

The Group holds the following financial assets other than financial derivatives:

- financial assets measured at fair value through profit or loss (purchased debt portfolios – overdue debts purchased by the Group under debt assignment agreements for prices lower than the nominal value of the debt);
- loans and receivables (financial assets with determined or determinable payments, not listed on any active market; loans and receivables include cash and cash equivalents, loans advanced, trade receivables and debt portfolios purchased in or after 2014).

The Group holds the following financial liabilities other than derivative instruments:

- borrowings,
- liabilities under debt securities,
- lease liabilities,
- trade and other payables.

Derivatives

In 2017, KRUK S.A. and Bank Zachodni WBK S.A. entered into two cross currency interest rate swap contracts ("CIRS"). The contracts hedge both the currency and the interest rate risk as they effectively replace the Company's debt contracted in PLN with EUR-denominated liabilities:

- A contract executed on January 9th 2017 hedges the 3M WIBOR-linked coupon on Series Z1 bonds with a nominal value of PLN 100m. The start date of the contract was the transaction execution date. Under the contract, the Company pays at a fixed rate of 3.06%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on June 4th 2021. On that day, the Company will receive PLN 100m from BZ WBK and will pay EUR 22.8m to BZ WBK.
- A contract executed on January 13th 2017 hedges the 3M WIBOR-linked coupon on Series AA1 bonds with a nominal value of PLN 90m. The start date of the contract was the transaction execution date. The Company pays at a fixed rate of 2.97%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on November 10th 2021. On that day, the Company will receive PLN 90m from BZ WBK and will pay EUR 20.6m to BZ WBK.

In 2017, KRUK S.A. and Bank Zachodni WBK S.A. entered into two interest rate swap contracts ("IRS"):

- A contract executed on November 7th 2017 hedges the 3M WIBOR-linked portion of the coupon on Series AA2 bonds with a nominal value of PLN 150m. The start date of the contract was the transaction execution date. The Company pays at a fixed rate of 2.50%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. Payments are made every three months (interest period). The contract will end on March 2nd 2022.

- A contract executed on November 7th 2017 hedges the 3M WIBOR-linked portion of the coupon on Series AC1 bonds with a nominal value of PLN 50m. The start date of the contract was the transaction execution date. The Company pays at a fixed rate of 2.50%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. Payments will be made every three months (interest period). The contract will end on May 4th 2022.

3.4.2 Financial instrument risk exposure

3.4.2.1 Credit risk

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

3.4.2.2 Liquidity risk

Liquidity risk is the risk of the Group being unable to meet in a timely manner its liabilities that are to be settled by delivery of cash or other financial assets.

3.4.2.3 Market risk

Currency risk

Exposure to currency risk is identified by the Group in connection with its intensive foreign expansion and growing investments in portfolios denominated in foreign currencies. If there is no access to financing denominated in a given currency, such investment may partly be financed with debt contracted in a different currency.

In such circumstances, there is a risk that the Group may incur additional costs related to currency conversion or the Group's liquidity may deteriorate due to adverse changes in foreign exchange rates. The Group is also exposed to the risk of deterioration in its financial results due to unhedged currency exposures (the risk of incurring foreign exchange losses).

Interest rate risk

The Group's debt is denominated in the zloty and euro (credit facilities and bonds), based on floating interest rates, and therefore the Group is exposed to interest rate risk. The Group has identified exposure to the risk of an increase in the WIBOR and EURIBOR interest rates. There is a risk that the Group may incur additional finance costs (higher debt service costs) as a result of an increase in interest rates, which in turn are driven by changing conditions on the financial markets.

3.4.3 Objectives and methods of financial risk management

The Group's risk management policies are established to identify and analyse the Group's risk exposure, to set appropriate risk limits and controls, and to monitor risks and compliance with the limits. The risk management policies and systems are reviewed on a regular basis to reflect changes in market conditions and the Group's activities through appropriate training courses and adopted management standards and procedures. aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Assets relating to credit risk are presented below.



Table 24. Assets relating to credit risk (PLN '000)

	Dec 31 2017	Dec 31 2016
Financial instruments at fair value through profit or loss	518,963	724,832
Financial assets measured at amortised cost	2,601,599	873,300
Loans	24,872	22,013
Receivables	80,867	35,110
Total	3,226,301	1,655,255

Source: Company

3.4.3.1 Credit risk

Prior to a debt purchase, the Group performs a thorough analysis taking into account the likelihood of recovery of invested capital and the respective cost of the collection process. Additionally, the Group diversifies the types of purchased debt in order to mitigate the insolvency risk of a given group of debtors.

The Group advances loans to natural persons who previously repaid their debts towards the Group companies or are consistently repaying such debts. The Group has defined a set of information required to assess a borrower's creditworthiness.

3.4.3.2 Liquidity risk

The liquidity risk management policy is designed to ensure that the Group has sufficient liquidity to meet its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.

Liquidity risk management tools used at the Group include:

- regular monitoring of cash needs and expenses;
- flexible management of cash flows between the Group entities;
- conducting debt management activities on a continuous basis, ensuring continuous cash inflow;
- ensuring the Group's compliance with financial covenants under credit facility agreements and debt instrument issues;
- use of external sources of funding, in the form of bank borrowings or bonds.

3.4.3.3 Market risk

The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits so as to:

- maintain a stable financial position in the long-term;
- mitigate the liquidity risk;
- reduce the impacts of market risk on profit or loss;
- mitigate the risk of non-compliance with financial covenants under credit agreements and bond issue prospectuses.

In order to meet these objectives, the Group follows and periodically reviews its internal currency and interest rate risk management policies.

In the process of market risk management, the Group selects optimum financing sources for its planned investment projects, analyses macroeconomic trends and monitors changes in its key currency exchange and interest rates. The Group monitors and forecasts the value of unhedged currency exposures and the effect of exchange rate and interest rate fluctuations on its profit or loss. Moreover, under a framework agreement with a bank, the Group may enter into derivative contracts to hedge the currency and interest rate risk.

The market risk management objectives are achieved through efforts implemented at the individual Group entities in Poland and abroad, with the efforts coordinated by the Company as the entity responsible for market risk identification and management.

3.5

Events with a significant effect on the Group's operating and financial results

3.5.1 Material events during the financial year

Events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in 2016 are discussed in detail in other sections of this report. Such events include mainly the execution of material agreements in the course of business, as described in detail in "Agreements concluded by the KRUK Group".

3.5.2 Non-recurring factors and events

In 2017, the Company's business was not affected by any non-recurring factors or events.

3.6

Assessment of financial resources management

3.6.1 Financial forecasts

On January 10th 2018, in Current Report No. 2/2018 KRUK S.A. released the preliminary, estimated financial results of the KRUK Group for 2017. The initial estimate of the KRUK Group's consolidated net profit for 2017 was PLN 300m, higher by PLN 5m than the net profit actually posted.

3.6.2 Assessment of future financial standing

The Group mitigates risks associated with management of financial resources through a continuous debt management process, which ensures an uninterrupted inflow of cash. The Group relies on external financing, but it monitors and ensures proper performance under its credit facility agreements and fulfilment of its other financial liabilities.

In the opinion of the Management Board, given the Group’s current and projected financial position there are no significant risks related to its management of financial resources. The Company is able to control and service its debt and manages its financial resources in a prudent manner.

3.7

Dividend policy

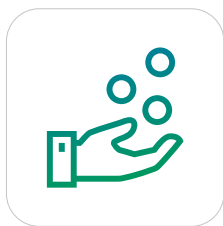
3.7.1 Historical data on dividend payments

Information on dividend payments in the last five financial years is presented in Table 22

Table 25. Historical information on dividends paid out to KRUK S.A. shareholders

Profit for the year	2014*	2015	2016
Dividend payment date	July 24th 2015	July 29th 2016	July 5th 2017
Dividend per share (PLN)	1.5	2	2
Total dividend (PLNm)	25.9	35.49	37.49

* No dividends were paid by the Company prior to 2014.
Source: Company



2 PLN per share

Dividend paid for 2016 results



Table 26. Calendar of events related to dividend payment in 2017

March 28th 2017

Management Board's resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 2 per share from the 2016 net profit increased by an amount transferred from statutory reserve funds created out of retained earnings.

March 29th 2017

Supervisory Board's resolution to approve the Management Board's recommendation on the allocation of KRUK S.A.'s net profit for 2016

May 15th 2017

Annual General Meeting's resolution on allocation of KRUK S.A.'s 2016 net profit in line with the Management Board's recommendation

June 29th 2017

Dividend record date. The dividend is to be paid on 18,744,216 KRUK S.A. shares..

July 5th 2017**Dividend payment date**

In the reporting period and as at the date of authorisation of this report, KRUK S.A. received a total of PLN 34.97m, PLN 32.5m and PLN 7.3m as profit distributions from SeCapital S.à r.l., a Luxembourg-based subsidiary, InvestCapital Ltd., a subsidiary, and from law firm Kancelaria Prawna Raven Krupa&Stańko sp. k., respectively. Kancelaria Prawna Raven Krupa&Stańko Sp. k. also paid PLN 4 thousand to its general partners as a profit distribution in 2017.

Additionally, after the end of the reporting period, on March 6th 2018, the Company's Management Board passed a resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 5 per share. The payment will be made from the Company's net profit for 2017, increased by an amount transferred from statutory reserve funds created out of retained earnings.

3.7.2 Dividend policy

The Company does not have any defined dividend policy at the moment, but does not rule out implementing one in future. The Management Board may propose distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial standing.

3.8**Auditors**

On July 8th 2017, the Company and KPMG Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement for the audit of its separate and consolidated financial statements for 2017 and for the review of its separate and consolidated financial statements for H1 2017. The fee for auditing the full-year separate financial statements of the Company, auditing the full-year financial statements of the subsidiaries, reviewing the full-year financial statements of the subsidiaries, and auditing the full-year consolidated financial statements and reviewing the half-year consolidated financial statements was set at PLN 1,053 thousand (2016: PLN 999 thousand); and the fee for other assurance services – at PLN 408 thousand (2016: PLN 25 thousand). The separate and consolidated financial statements for 2016 were audited by Ernst and Young Spółka z ograniczoną odpowiedzialnością sp. k.





The Group's operations and development directions

Structure and description of the debt management market

Legal and regulatory environment

Development directions and prospects of the Group

The Group's investment programme

Risk factors – internal factors

Agreements executed by companies of the KRUK Group

Court, administration and arbitration proceedings

Material events after December 31st 2017

Major research and development achievements



4.1

Structure and description of the debt management market

The key segmentation criterion on the Group's debt management market is the ownership of debt. Considering the acquisition of legal title to debt, two segments can be distinguished:

- Management of purchased debt portfolios

Management of purchased debt portfolios is the principal area of the KRUK Group's activities. The Group has an extensive knowledge base, specialised methods of valuation, access to financing and appropriate transaction structures, which allow it to purchase debt portfolios on all seven markets in which it is present. The Group is prepared to invest in debts of all types: secured and unsecured consumer debts, including mortgage debts, as well as SME and corporate debts, but the preferred category are unsecured consumer debt portfolios. The nominal value of the portfolio of debts purchased by the Group since 2007 is PLN 52.5bn.



PLN 52.7m

Nominal value of portfolio bought since 2007

- Credit management services

The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. The Group focuses on the banking market and relies on long-term relations with key accounts. In 2017, the Group managed a portfolio of debts with a nominal value of PLN 14.7bn.



PLN 14.7bn

Nominal value of receivables under management as a 3rd party servicer in 2017

Based on another criterion – the type of managed debt, the market can be divided into three segments:

- **Unsecured retail debt market comprising non-performing**, unsecured debts of consumers and small and medium-sized businesses to banks, insurers, service providers (such as telecommunications or cable TV operators), or housing cooperatives;
- **Mortgage-backed retail debt market** comprising non-performing debts of natural persons to banks under mortgage-backed debt loans and borrowings,
- **Corporate debt market** comprising debts of businesses, primarily resulting from outstanding financial liabilities towards banks (often collateralised), with significant unit nominal values;

The Group's primary markets in 2017 were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain. The KRUK Group also purchased corporate debt.

The situation in the debt management industry in the countries where the Group operates depends on the prevailing macroeconomic conditions. The key factors which may affect the Group's financial performance include in particular the unemployment rate, average pay in the economy, household debt, GDP growth rate, investment growth rate, inflation rate, budget deficit, and the PLN exchange rate against other currencies. The macroeconomic environment has a two-fold effect on the Group's standing in each phase of the economic cycle.

The effect of the macroeconomic environment on the Group's standing in a period of fast economic growth:

- Growth in household incomes in real terms translates into consumers' greater willingness to spend and increased demand for credit, which leads to the subsequent increase in banks' lending activity;
- Increase in the lending activity translates into a rising overall debt level in the economy and, consequently, into more cases being processed on the non-performing debt management market;
- Growing incomes of the population result in a higher loan repayment rate, which improves recoveries from debt portfolios purchased by the Group and, in the subsequent periods, reduces the number of collection cases sold or outsourced to debt collection agencies, unless the effect is compensated by an increase in the overall debt level in the economy.

The effect of the macroeconomic environment on the Group's standing in a period of economic slowdown:

- Deteriorating loan repayment rates in the economy translate into a greater number of cases being processed on the non-performing debt management market; Increase in the number of outsourced credit management cases follows with a lag of several months, whereas an increase in the stream of debt coming up for sale follows the trend up to a few years later;
- Reduction of lending activity by banks translates into a lower number of new debtors in the banking sector;
- Growing unemployment rate and a decrease in people's incomes is followed by deteriorating loan repayment rates, and thus may adversely impact the recoverability of debt portfolios held by the Group;
- Any increase or decrease in the exchange rate of the currency in which debts are denominated and repaid in foreign markets may increase or decrease the amount of payments expressed in the Polish zloty or the fair value of debt portfolios denominated in foreign currencies.

An important market parameter which has a bearing on the supply of new debt portfolios and demand for debt collection services provided by the Group is banks' interest in outsourcing these to debt collection agencies, defined as the share of debt sold or outsourced for collection to specialised service providers, in the overall volume of non-performing debts. The Group's clients, on the Polish and foreign markets, adopt a variety of debt management strategies. The Group is exposed to the risk that their interest in outsourcing debt collection or selling receivables will be reduced, resulting in an increase in the volume and value of debts collected by creditors using their own resources. Such lesser interest in outsourcing debt collection would suppress demand for external debt collection services, such as those rendered by the KRUK Group, and reduce the supply of debt portfolios available for purchase, thus adversely affecting the Group's revenue.

Competition in the debt purchase segment is typically less intense than in the credit management segment due to higher entry barriers to the market. These include: access to capital, expertise and experience in the valuation of debt portfolios, as well as the size of the operations enabling large-scale management of significant debt portfolios. Debt portfolios are purchased in auctions, where the primary award criterion is the price. The Group's key competitors in the debt purchase segment include trade investors (credit management companies), and financial investors (investment and hedge funds).

The credit management industry, where the KRUK Group operates, is highly competitive. Entities which provide credit management services to financial institutions compete primarily in terms of the scale of their operations, recovery rates (effectiveness), price, service standards, as well as personal data protection standards.

For a description of our key geographical markets, see 'We have been building bridges between people for 20 years now'.

4.2

Legal and regulatory environment

KRUK S.A. was incorporated and operates under the laws of Poland. The Group also conducts activities on foreign markets. The foundation of continental Europe's legal systems, Polish law including, is the statute law. Significant number of laws and regulations governing issuance of and trade in securities, shareholders' rights, foreign investments, corporate activities and governance, trade and business activities, including consumer bankruptcy, as well as tax reliefs and benefits available to investment funds, have been and may be amended. These regulations are subject to differing interpretations, hence the risk that they may be applied in an inconsistent manner by court and public administration bodies, which is further exacerbated by the fact that not all court judgments are published in official collections of judicial rulings. As a rule, court judgments, not regarded as an official source of law, are not binding in other cases, however, they do have certain influence on the practice of interpretation and application of the law. Therefore, no assurance can be given by the Company that its interpretation of Polish law or laws of other countries applicable to the Group's business will not be challenged, which may in turn result in fines or penalties being imposed on the Company, or the Company being required to change its policies. This may have an adverse effect on the Group's operations, financial condition and image.

In particular, the Group's operations comply with the applicable laws and regulations on competition and consumer protection. Given the nature of its operations, the Group is exposed to the risk that the President of the Polish Office of Competition and Consumer Protection (UOKiK), or another competent consumer protection authority (particularly abroad), finds that the Group's activities infringe on

collective consumer interests or that the Group applies abusive clauses in its contract templates. Also, there is a risk that the UOKiK President, or another competition protection authority, may bring abuse charges against entities holding a dominant market position. On concluding that such abuse exists, the UOKiK President, or another competition protection authority, may demand that the abuse of dominant position be discontinued, and impose a financial penalty.

Changes in legislation may also have a material effect on the Group's profitability or even limit the Company's or its subsidiaries' ability to provide certain services. In particular, the Group's operations may be affected by changes of laws and regulations in the following areas: pursuing claims in court and enforcement proceedings, operation of securitisation funds, terms and conditions of granting consumer loans, and terms and conditions of entering debtors in registers maintained by credit reference agencies.

The nature of the Group's operations involves extensive personal data processing as part of the Group's everyday business. The processing of personal data by the Group is carried out in compliance with the personal data protection laws in force in the countries in which the Group operates. However, the Company cannot assure that there will never occur a situation where despite the use of technical and organisational measures to protect personal data it processes the Group's legal obligations in this respect are breached, in particular by disclosing personal data to unauthorised persons.

Some areas of the Group's operations, in particular the activities of securitisation funds and investment companies managing such funds and management of securitised receivables of a securitisation fund, as well as the provision of detective services, are subject to special regulations. To conduct such activities, the Group is required to obtain authorisations or consents from public administration authorities (the PFSA in Poland) or have them entered in the register of regulated activities, and is subject to supervision by these authorities.

The laws and regulations underlying the tax systems in the countries in which the Group operates may change. Some of these laws and regulations are ambiguous and the practices and interpretations of tax authorities frequently lack consistency and clarity. Due to differing tax law interpretations, the tax risk in Poland and the other countries where the Group is present is greater than in the legal systems on developed markets. No assurance can be given by the Company that tax authorities will not establish different tax interpretations, unfavourable to the Group, or that tax legislation will not change, which may have a material adverse effect on the Group's operations, financial condition or performance. Furthermore, as the Group operates in various jurisdictions, double-tax treaties also have an effect on its business.

Considering the legal environment, one should bear in mind the EU legislation, which governs various spheres of economic activity, in particular competition, financial services markets, consumer rights, fair business practices and terms of contracts with consumers, supervision of tax legislation applicable in member states, personal data protection, etc. The EU laws have a significant influence on member states' legislation, and thus on the Group's operations.

Since the Group is also present abroad, below is presented an overview of the legal and regulatory environment in the countries where it operates, that is Romania, the Czech Republic, Slovakia, Germany, Spain, and Italy.



Romania

In Romania, debt collection companies are subject to the registration requirement and are obliged to file reports with the National Consumer Protection Authority (NAPC). In December 2016, Kruk Romania was entered in the register maintained by NAPC.



The Czech Republic and Slovakia

The National Bank of Slovakia issued a decision authorising the KRUK Group company operating in Slovakia to grant consumer loans as of December 2nd 2016. Obtaining that decision was also necessary for the company to be able to purchase debts under consumer loan agreements as this type of debt can only be purchased by entities licensed by the National Bank of Slovakia.



Germany

In 2016, the regulatory environment in Germany did not change significantly. Currently, the only regulatory authority is Kammergericht Berlin, which supervises credit management activities and companies.



Italy

In Italy, debt collection is also subject to licensing. Questura is the authority competent to grant and revoke such licences. The KRUK Group company operating in Italy holds the required licence. The institutions directly supervising debt collection and purchase activities are: Bank of Italy (Itacapital SPV is required to send periodic reports on

its debt portfolio purchases to the Bank of Italy; the Bank may also demand formal explanations or carry out inspections). Also Autorita' Garante della Concorrenza e del Mercato (AGCM) is authorised to impose sanctions in the event of a breach of the Codice di Condotta law, laying down best practices to be followed in debt collection. The following institutions should also be mentioned: Garante della Privacy, authorised to impose sanctions in the event of a breach of personal data protection rules, and Guardia di Finanza, authorised to impose sanctions in the event of a breach of tax obligations.



Spain

The Spanish legislation does not provide for the obligation to obtain a permit or licence to conduct debt management activities. No entity operating in Spain is obliged to meet any special requirements with respect to its assets, investments, accounting or regulatory reporting. However, it is possible that such entities may soon become required to implement regulations with respect to obligatory reporting, data protection, and consumer rights. Furthermore, all entities engaged in

finance or lending activities are obliged to comply with specific regulations governing such activities. There are no regulations applicable specifically to debt collection outsourcing. Certain types of activities, such as those of a field consultant, are subject to strict regulation and require a special permit from the Ministry of Internal Affairs.

4.2.1 Securitisation funds

Operations of the Group's securitisation funds (Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, Bison NS FIZ) are regulated. In Poland, securitisation funds operating as closed-end investment funds are subject to supervision by the PFSA, which has extensive powers and legal instruments to supervise them.

The PFSA's powers include: granting permits to manage securitised receivables of a securitisation fund by an entity other than an investment fund company; supervising entities that manage securitised receivables of a securitisation fund, including with regard to compliance of their securitised debt management activities with the



law, the fund's articles of association, the agreement concluded with the investment fund company and the authorisation granted; and imposing penalties and applying other measures in the event of violation of the laws governing the operations of investment funds, including fines and withdrawal of the permit.

By the decision of May 8th 2012, the PFSA authorised KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to conduct activities consisting in establishment and management of investment funds. On December 7th 2012, the management of the KRUK Group's securitisation funds was taken over by KRUK Towarzystwo Funduszy Inwestycyjnych S.A. On May 19th 2016, KRUK TFI S.A. took over the management of P.R.E.S.C.O. Investment I NS FIZ from Trigon TFI S.A. On October 13th 2017, KRUK TFI S.A. took over the management of Bison NS FIZ from Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.

In accordance with the provisions of the Act on Investment Funds and Management of Alternative Investment Funds of May 27th 2004, as amended by the Act Amending the Act on Investment Funds and Certain Other Acts of March 31st 2016, the KRUK Group securitisation funds received the status of alternative investment funds, and KRUK TFI S.A. became the manager of alternative investment funds. These changes of status entail closer supervision by the PFSA and additional duties for the management company.

On April 15th 2016, KRUK S.A. entered into an agreement to manage the securitised debt of P.R.E.S.C.O. Investment I NS FIZ. On October 12th 2017, KRUK S.A. entered into an agreement to manage the securitised debt of Bison NS FIZ. The agreement provides, inter alia, for debt purchase and sale on behalf of the fund, preparation of projects and analyses concerning the fund's investments, preparation of analyses concerning efficient day-to-day management of the fund's portfolio, as well as collection and administration of the fund's securitised receivables. Since April 1st 2015, KRUK S.A. has also managed the securitised debt of Prokura NS FIZ. The performance of such agreements is subject to the PFSA's oversight.

Additionally, irrespective of the PFSA's supervision, activities of the Group's securitisation funds must be conducted in compliance with a number of EU and Polish laws and regulations.

4.2.2 Outsourcing of debt collection by banks

Pursuant to the provisions of the Banking Law (consolidated text in Dz.U. of 2016, item 1988), banks are not required to request the PFSA's approval in order to transfer debt for collection by the Group. The terms and conditions on which debt collection may be outsourced by banks are defined in the Banking Law. In addition, the performance of debt collection outsourcing agreements by the Group companies is subject to supervision by the PFSA.

4.2.3 Exchange of business information

On September 22nd 2016, amendments to the Articles of Association of Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A., including change of the company's name to ERIF Biuro Informacji Gospodarczej S.A., were registered.

The operations of ERIF BIG S.A. are governed by the Act on Access to Business Information and Exchange of Business Information of April 9th 2010 (Dz.U.2010.81.530, as amended). Legal and regulatory compliance of ERIF BIG's activities, which involve provision of credit reference agency services, is supervised by the minister competent for the economy.

On November 13th 2017, the Act Amending the Act on Access to Business Information and Exchange of Business Information of April 9th 2010 entered into force. The changes enable the company to offer new types of services, including intermediation in accessing information from public registers and analyses of creditworthiness of entrepreneurs/business entities. At the same time, the changes would entail imposition of certain additional duties on the company, for instance related to considering debtors' objections against entry of business information into the register.

4.2.4 Other authorities materially involved in oversight of the Group's operations

The Group companies operating in Poland are also supervised by other competent administrative authorities with respect to specific areas of their business, for instance by:

- The President of UOKiK – with respect to competition law and protection of consumer rights;
- The Inspector General for Personal Data Protection – with respect to processing and protection of personal data.

The Group companies operating abroad are subject to supervision by competent authorities in the countries where they conduct their business:

- **In Romania:** The financial sector in Romania is governed by numerous regulations, covering the exercise of supervision over and control of operations conducted by banking and non-banking financial institutions. Non-banking financial institutions (IFNs) are subject to supervision by the National Bank of Romania (NBR). The NSC mentioned above in Section 4.2 is the capital market regulator. NAPC is the supervision authority responsible for protection of consumer rights, maintaining a register in which any entity looking to launch debt collection operations must be entered.

- **In Germany:** Kammergericht Berlin is the authority overseeing the credit management sector and activities of credit management companies.
- **In the Czech Republic:** The Czech Commercial Inspection Authority is competent for protection of consumers, including supervision of the debt recovery business; other relevant authorities include the body responsible for supervising compliance with personal data protection regulations and the “financial arbitrator” responsible for settling disputes between consumers and financial institutions on an out-of-court basis.
- **In Slovakia:** The National Bank of Slovakia is responsible for supervising the market of consumer lending and acquisition of consumer debt portfolios; the Commercial Inspection Authority is responsible for protection of consumers, including with respect to collection of debts; there is also an authority with a remit to supervise protection of personal data;
- **In Italy:** The Bank of Italy is the competent market regulator with respect to purchases of debt portfolios; ACGM is responsible for overseeing compliance with the principles set forth in Codice di Condotta; Questura is the licensing authority for entities looking to conduct debt collection activities; and Garante della Privacy is responsible for personal data protection;
- **In Spain,** there is the Spanish Personal Data Protection Agency.

4.2.5 Personal data protection

As part of their day-to-day operations the Group companies process large amounts of natural persons’ data, therefore personal data protection laws are particularly important in the Group’s operations. Personal data must be processed in compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against disclosure to unauthorised individuals. In addition, individuals whose data is processed should be provided with information on the entity processing the data, as well as on the purpose and basis of processing the data; in addition, such individuals must have the right to access and amend their data.

Those operations of ERIF Biuro Informacji Gospodarczej S.A. which involve making available credit information are also governed by the Act on Access to Business Information. Furthermore, relevant provisions of the Banking Law concerning banking secrecy apply to the management of bank debts. In the case of securitised debt management, the professional secrecy provisions contained in the Act on Investment Funds should be taken into account.

4.2.6 Changes in the laws and regulations applicable to the Group’s business

Below are described some of the changes in the laws and regulations applicable to the Group companies which took effect in 2017. Selected examples:

On July 21st 2017, the Act on Mortgage Loans and on Supervision of Mortgage Brokers and Agents of April 21st 2017 came into force. The Act introduces changes to the Consumer Credit Act of May 12th 2011, including with respect to the legal requirements for consumer credit advertising, as well as changes relating to the obligation to be entered in the register of lending companies.

On November 13th 2017, the Act on Amendment of Certain Acts to Facilitate the Collection of Debts of April 7th 2017 came into force. The principal purpose of the Act is to support the rights and guarantees for creditors, in particular those from the SME sector, through such measures as:

- Providing more options for obtaining information about potential counterparty’s liabilities from business information bureaus, with due respect for debtors’ rights (this includes changes to facilitate access to comprehensive information on creditworthiness to small and medium-sized enterprises, reduce the costs of access to complementary information on creditworthiness, strengthen the protection of debtors against unjustified entry in the register, enable building fuller - meaning complete, current, and reliable - databases of liabilities to better verify potential counterparties and increase payment certainty);
- Raising the upper limit of the value of the subject of dispute for cases settled by way of the simplified procedure;
- Increasing the effectiveness of enforcement and injunctive proceedings.

In Romania, the Czech Republic and Germany, there were no major legislative changes in 2017; the only development worth mentioning was the transposition of Directive 2013/11/EU of the European Parliament and of the Council of May 21st 2013 on alternative dispute resolution for consumer disputes into German national law. The implementation of the Directive imposed on KRUK’s German company the obligation to inform consumers about alternative methods of dispute resolution.

**Slovakia**

In Slovakia, the following major legislative changes should be mentioned:

- On January 1st 2017, a new law (No. 307/2016) on the simplification of court proceedings entered into force. The law permits the issue of electronic payment orders by the District Court of Banská Bystrica, which has exclusive jurisdiction to conduct electronic civil proceedings in Slovakia.
- On March 1st 2017, an amendment to Law No. 7/2005 concerning bankruptcy proceedings entered into force. As a result of submitting a request for commencement of bankruptcy proceedings in accordance with the rules specified in the Act, the debtor may obtain a debt waiver. Debtors also have the option to enter into settlements on payment in installments as part of bankruptcy proceedings.
- As of April 1st 2017, bailiffs are randomly chosen by an IT system. Thus, the creditors are deprived of the right to choose a bailiff.

**Italy**

In Italy, the Codice di Condotta came into force. The new code recapitulates and consolidates into law the best practice to be observed in any activities undertaken towards indebted persons, including protection of their privacy, under pain of financial penalties or even loss of a licence. The amended code provides for the use of electronic means of communication and contains new, consumer-friendly regulations. Another new regulation is Decree 96/2017, which introduced changes to the Italian securitisation law, mainly regarding the debtor's situation and granting of new loans. Another important change in the Italian legal system is the entry into force of Decree 90/2017, implementing Directive 2015/849/EU on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

**Spain**

In Spain, on November 4th 2017, Law No. 7/2017 implementing Directive 2013/11/EU on alternative dispute resolution for consumer disputes was promulgated. Other important newly enacted laws include: (i) Royal Decree-Law 1/2017 on urgent consumer protection measures concerning floor clauses, and (ii) Royal Decree-Law 5/2017 on urgent measures for the protection of mortgage debtors without financial resources.

KRUK S.A. has brought its operations into compliance with the above regulations. However, as at the date of this report, the regulations' overall effect on the Company's operations cannot be reliably quantified. The initial expectation is that they will not have a significant impact.

4.3

Development directions and prospects of the Group

4.3.1 Strategy for 2015–2019

The KRUK Group continues to implement its strategy for 2015–2019. Section 4.6.1. Strategy for 2015–2019 and Section 4.6.2. Strategy implementation progress present the objectives of the strategy and progress in achieving these objectives.

Mission:

Our client base includes individuals and businesses facing the problem of excessive debt. We build positive relations and help our clients regain creditworthiness. We safeguard compliance with social norms and legal rules requiring that liabilities incurred must be settled.

Vision:

KRUK strives to become a global leader among listed debt management companies in terms of market value. We exceed the expectations of our Clients and Business Partners, creating long-term, mutually beneficial relations. Doing what we can do best, we set new directions on the financial market, which spurs us on and builds our value. We create an excellent and effective working environment for positive and passionate people.

Key objective for 2015–2019:

To grow by at least 15% annually in terms of EPS and maintain ROE at or above 20%

Specific objectives:

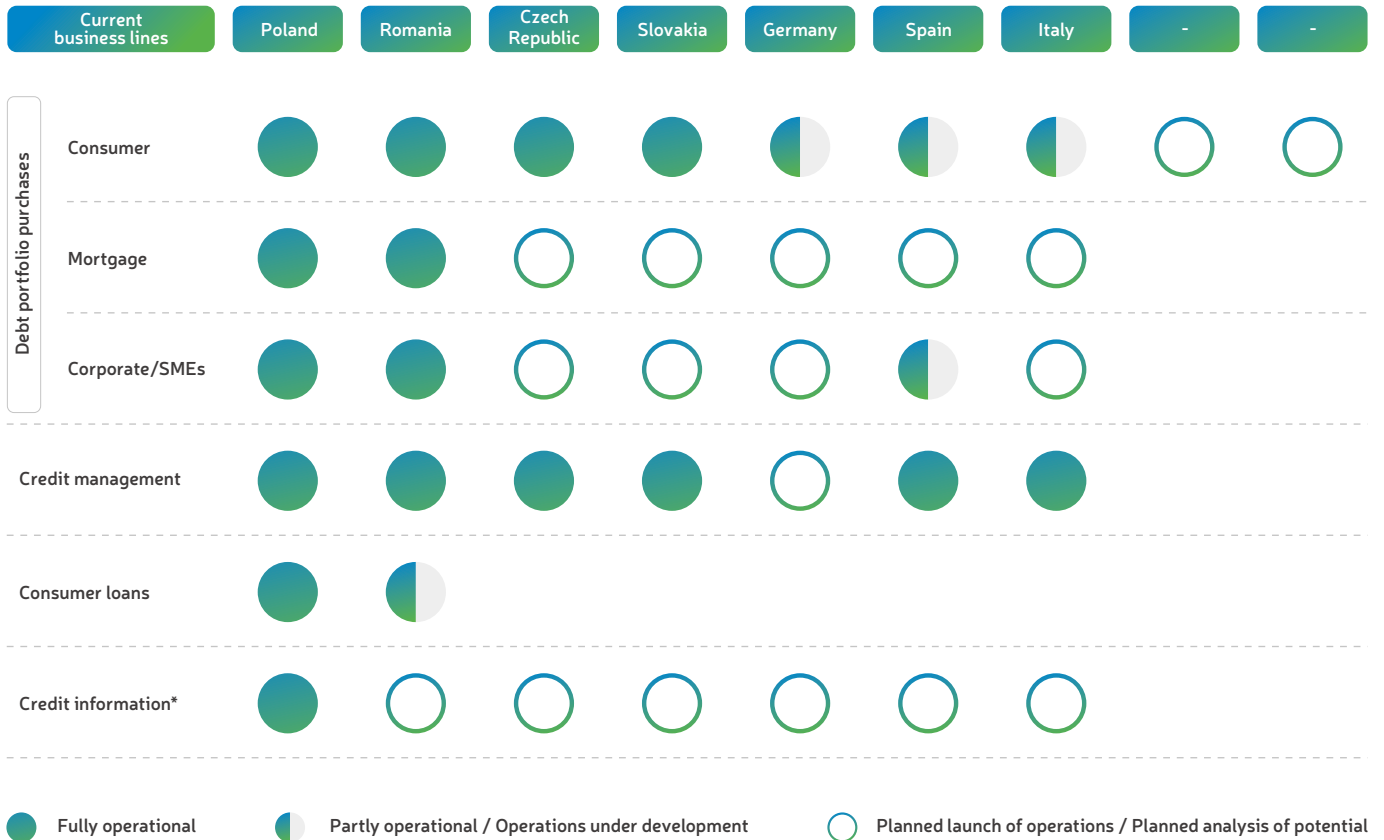
Product range development and growth in geographical regions

In 2015–2019, the Group plans to expand its existing business lines and develop new ones in countries where it already operates, and on new foreign markets. With respect to the product range, the Group plans to continue purchasing consumer, mortgage, and corporate debt portfolios, providing debt management services, and developing the

consumer loan business and credit information services. The Group plans to expand into large consumer markets of debt management in Europe, and – by the end of 2019 – it plans to enter at least one new

market and explore the potential of other markets. The Group's growth potential across products and geographical regions is presented in Figure 2.

Figure 2. KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions



Source: Company
 * Credit information – own credit reference agency or collaboration with local partners.

Improvement of management efficiency

Steps taken to enhance the Group's efficiency cover the entire organisation, with particular focus on economies of scale and more effective management of the portfolio of purchased debt. Based on nominal value at acquisition, the portfolio of purchased debt was PLN 59.5bn as at the end of 2017, and the number of cases exceeded 6.2 million. Since its inception, the Group has purchased a total of 738 debt portfolios. KRUK gains experience also by providing credit management services, as part of which a million cases on average are outsourced for collection by KRUK every year. The Group plans to maximise its management efficiency through:

- Improved debtor reach and e-service rollout;
- Continuous improvement of process efficiency and methods of data analysis;
- Improvement of systems ensuring security of operations;
- Expanding expertise in tender procedures and maintaining lasting relations with business partners;
- Creating an excellent and effective working environment for positive and passionate people.

New services in the financial sector

The Group sees the source of its business success in its organisational culture and competence in such fields as human resources management, high-volume operations, statistical analysis, management of risk and finances, and marketing. These factors are not specific to the debt management market, hence the KRUK Group plans to undertake by 2019 new, complementary projects in the financial sector in all markets.

4.3.2 Strategy implementation progress

In 2017, the assumptions underlying the main strategic objective were fulfilled as follows:

Main objective	Implementation progress in 2017
To grow by at least 15% annually in terms of EPS and maintain ROE at or above 20%	EPS growth rate: 12% Actual ROE: 20%

Despite the failure to meet the main objective in terms of EPS growth in 2017, the Management Board upholds the strategy for 2018-2019.

Presented below is the implementation progress on individual strategic objectives in 2017.

Specific strategic objectives	Key initiatives implemented in 2017
<p>Product range development and growth in geographical regions</p>	<p>Poland: achievement of the highest ever recoveries from purchased debt portfolios, acquisition of Bison NSFIZ (corporate portfolios), expansion of the loan business into external markets;</p> <p>Romania: achievement of the highest ever recoveries from purchased debt portfolio, purchase of a corporate debt portfolio with a nominal value of PLN 1.2bn (one of the largest transactions on the Romanian debt market);</p> <p>Czech Republic and Slovakia: doubling of the number and value of cases under management;</p> <p>Germany: investment in further consumer debt portfolios, outsourcing cases for collection by external business partners;</p> <p>Italy: investments in further portfolios, merger with CreditBase acquired in late 2016, rapid expansion of operating structures – employing over 200 staff (including call center staff and field consultants)</p> <p>Spain: investments in further portfolios, merger with ESPAND acquired in late 2016, rapid expansion of operating structures – doubling the number of employees (including call center staff and field consultants)</p>

Improvement of management efficiency

- development of customer experience processes;
- development of e-services, including the launch of the e-kruk.pl website in Poland;
- optimisation measures based on the lean tools;
- improved valuations, including on new markets;
- improvement of the systematic approach to risk.

Source: Company



4.4

The Group's investment programme

4.4.1 Capital expenditure

In 2017, the main items of capital expenditure made by the Group included PLN 3.2m spent on new vehicles (including under finance

lease agreements) and PLN 7.4m spent on plant and equipment. The Company also made material investments of PLN 16.7m in licences and software, including PLN 6.6m invested in proprietary software.

4.4.2 Investments within the Group

In 2017, KRUK increased or reduced the share capitals of its subsidiaries:

Table 27. Increase and reduction of the share capitals of the Group's subsidiaries

Company	Action	Amount
Secapital S.à r.l.	Share capital reduction	PLN 354.5m
InvestCapital Ltd.	Share capital increase	PLN 557.4m
InvestCapital Ltd.	Share capital reduction	PLN 11.9m
KRUK TFI S.A.	Share capital increase	PLN 10.8m
KRUK Česká a Slovenská republika s.r.o.	Conversion of loans and interest to capital – contribution to capital other than the share capital	PLN 22.87m*
KRUK Deutschland GmbH	Additional contributions to statutory reserve funds	PLN 10.4m**
KRUK Espana S.L.	Additional contributions to statutory reserve funds	PLN 18.6m**
KRUK Italia S.r.l.	Additional contributions to statutory reserve funds	PLN 35.3m**
KRUK Italia S.r.l.	Conversion of loans and interest to capital – contribution to capital other than the share capital	PLN 1.6m***
ItaCapital S.r.l.	Additional contributions to statutory reserve funds	PLN 0.68m**

* Translated at the mid-exchange rate quoted by the NBP for the day of signing the contract, i.e. March 31st 2017.

** Translated at the mid-exchange rate quoted by the NBP for the contribution date.

*** Translated at the mid-exchange rate quoted by the NBP for the day of signing the conversion contract, i.e. November 16th 2017.

Source: Company

Novum Finance Sp. z o.o. of Wrocław repaid PLN 5.3m of the total of PLN 7.2m paid by KRUK as additional contributions to the company's equity pursuant to resolutions of April 27th and May 30th 2012. The repayment was made in accordance with resolutions of June 26th 2013 and January 29th 2014. On March 17th 2014, liquidation proceedings were opened for Novum Finance Sp. z o.o. By its resolution of July 29th 2016, the company's Extraordinary General Meeting revoked the decision to liquidate the company. As at December 31st 2017, additional contributions to equity disclosed by Novum Finance Sp. z o.o. were PLN 1.9m.

In 2017, InvestCapital Ltd, a subsidiary, reduced the share capital of SeCapital S.à r.l. by a total of PLN 135.9m.

In 2017, SeCapital S.a r.l., a subsidiary, reduced the share capital of Presco Investment S.a r.l. by a total of PLN 23.7m.

Establishment of new companies

No new companies were established by KRUK S.A. in 2017.

Acquisition of shares in foreign companies

No shares in foreign companies were acquired by KRUK S.A. in 2017.

4.4.3 Investment programme financing sources

The KRUK Group's investment programme is financed with cash generated in the ordinary course of business, bank borrowings, and proceeds from bond issues.

4.4.4 Assessment of the feasibility of investment plans

In the opinion of the Management Board, the Group's investment plans are not exposed to any material risks as at the date of approval of this report.

4.5

Risk factors – internal factors

4.5.1 Material risk factors

[G4-2]

4.5.1.1 Risk of failure to achieve the Group's strategic objectives

The Group's growth strategy is presented in the Section entitled Development directions and prospects of the KRUK Group. There is a risk that the Group will fail to achieve its objectives, which may be caused by various factors, including:

- Errors of persons responsible for the implementation and execution of the strategy;
- Market situation, business environment and competitors' activities;
- Lower availability of external financing;
- Incorrect valuation of investments, including debt portfolios purchased;
- Changes to legal regulations and their interpretation and actions of regulatory authorities;
- Unfavourable decisions of Company shareholders;
- Force majeure events.

The development of existing operations, further development of the product range and expansion into new markets require expenditure, in

certain cases in significant amounts. If the development of existing operations proves less profitable than expected, new products are not well received by the market or the Group fails to gain a competitive edge on a new market or gains it later than expected, the expenditure may not be fully covered by revenue generated.

Delays in achieving or failure to achieve the Group's strategic objectives within the assumed time frame or the occurrence of any of the above-described circumstances may have a material adverse effect on the Group's operations, financial standing or performance. There can be no assurance that the Group will maintain or improve its historical performance and therefore the Group's historical performance should not be treated as indicative of its future results.

4.5.1.2 Risk of error in estimating the fair value of acquired debt portfolios

In the course of its operating activity, the KRUK Group purchases debt portfolios for its own account. If purchased debt portfolios do not generate expected cash flows over specified time horizons it may be necessary to make a downward revaluation of the portfolios. The risk is relatively higher on new markets, where the Group is yet to gain experience. An additional driver of the risk is potential fluctuations of foreign exchange rates, which may increase or decrease PLN income from foreign-currency portfolios (currency risk).

4.5.1.3 Operational risk related to the Group's business

The Group is exposed to the risk of damage or loss for reasons attributable to its internal procedures, personnel, technologies or external circumstances. The main operational risks include incorrect or unreliable internal procedures; errors, omissions or illegal actions of employees or associates; problems with operating systems; disruption of operating activities (e.g. due to failure of software or IT and telecommunications hardware); damage to the Group's assets; external events and factors (including errors in registering economic events or amendments to legal regulations); fraud and embezzlement.

[G4-14]

4.5.1.4 Risk of increased costs of the Group's operating activities

Financial performance generated by the KRUK Group is a function of a number of cost factors over which the Group has no or only limited control, including in particular cost of salaries, court costs, tax costs and prices of purchased debt. In the event that any increase in costs is not accompanied by a growth of the Group's revenue, there is a risk that the Group's financial standing might deteriorate.

4.5.1.5 Risk of material decline in recoveries from purchased debt portfolios

Purchase of debt for the Group's own account means that the Group assumes the risk of non-payment by debtors. This risk is particularly material if the amounts of individual debts in a purchased portfolio are high relative to the Group's equity or profit levels. Additional risk may be generated by the growing number of consumer bankruptcies. As at the date of this report, the KRUK Group held no single debt whose non-payment could have a material adverse effect on the Group's liquidity, but no assurance can be given that such situation will not occur in the future.

4.5.1.6 Credit risk

Credit risk is the risk of financial loss if a client or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with purchased debts, receivables for services provided by the Group and loans it advances. Factors with the strongest effect on the scale of the Group's credit exposure include in particular:

- value of purchased debt portfolios,
- loans advanced,
- trade receivables.

Additional risk may be generated by the growing number of consumer bankruptcies.

4.5.1. Debt risk

Debt portfolio purchases involve making large one-off payments. To secure the necessary funding for its debt portfolio purchases, the Group relies on external financing in the form of bank borrowings or bonds. The KRUK Group uses and intends to use in the future bank loans, bonds and other debt instruments to finance purchases of debt portfolios. Moreover, the Group enters into lease arrangements to finance investments in property, plant and equipment. Any material deterioration in the Group's liquidity may result in the Group being unable to repay principal and interest or fulfil other obligations under the credit facility agreements it has concluded or under debt instruments in issue. If the Group fails to meet the terms of the loan agreements it has signed, the Group companies' debt under bank loans may be accelerated, in whole or in part, and in the event of failure to repay the debt financial institutions will be entitled to enforce their claims against the collateral created over the Group's assets. If the Group defaults under the terms and conditions of bonds it has issued, it may be obliged to redeem such bonds early.

4.5.1.8 Risk of losing experienced management staff

Loss of key employees poses the risk of temporary disruptions in the Company's operations and lower quality of its management, and may have an adverse effect on the pace of implementation of its development plans. Human resources are one of the fundamental components of the KRUK Group's operations.

The key functions in the Company's HR structure include:

- executive staff, managers,
- experts with debt collection and credit management experience,
- risk managers, who have a central role in assessing and valuing debt portfolios for purchase, and in assessing debt collection performance,
- programmers and IT specialists focused on developing the IT infrastructure. Inadequate work quality and insufficient number of experienced employees may lead to the Group generating poor financial performance.

4.5.1.9 Risk of IT failure

In its business, the Group uses advanced IT systems facilitating smooth execution of debt collection processes and valuation of debt portfolios. The key systems used by the Group include the Delfin debt collection platform, the billing system, management information system, contact centre, and the e-KRUK on-line service.

No assurance can be given that all or part of the IT system or IT equipment will not be affected by a failure making it difficult for the Group to conduct operations or achieve its strategic objectives. Security of the operational systems is also important to the Group in view of the need to ensure personal data protection.

4.5.1.10 Risk connected with related-party transactions

The Company and the Subsidiaries have entered and will continue to enter into transactions as related parties. In the Company's opinion, all such transactions have been executed at arms' length. However, there can be no assurance that the transactions will not be challenged by tax authorities, which could result in higher tax liabilities of the Company and the Group.

4.5.1.11 Risk of personal data processing on a wide scale

Group's business model requires processing personal data on a wide scale. Personal data processing by the Group has to be conducted in accordance with the regulations in the countries where it operates. The Company cannot exclude any breach of these responsibilities, despite implementation of all necessary technical and organizational means ensuring data protection. In case of such breaches, especially unlawful leakage of personal data, the Group or its governing bodies may face criminal or administrative sanctions. Unlawful disclosure of personal data may cause civil investigation against the Group regarding a breach of personal rights. Additionally, some contracts of the Group include penalties for breaches of data protection requirements. Violation of personal data may also negatively influence the reputation and trustworthiness of the Group, which may decrease the number of business partners.

4.5.1.12 Risk of material changes of the law

Regulations and rules governing the operations of the Group, including debt collection, corporate governance, trade, economic activity, personal bankruptcy, taxes, investment funds, have been changing and may change in the future. The Company cannot exclude the implementation of negative changes in certain jurisdictions directly or indirectly influencing debt collection. Changes of certain regulations or improper interpretation of rules and regulations may result in civil, criminal or administrative sanctions. They may also require from the Group to change the way it conducts its operations and require proper compensation for damages. Finally, they may cause unpredictable costs, in particular those related to the accommodation to new rules and regulations, and influence the reorganization of the Group structure.

4.5.1.13 Risk of low level of financial literacy

Lack of basic knowledge about finance may lead the society to improper interpretation of regulations, including the debt collection process. In particular, this may lead to popularization of a thesis that it is not worth to repay the debts. This situation may negatively influence the perception of the debt collection companies operating lawfully. Finally, this may also influence the perception of the whole debt collection industry and negatively impact recoveries from debt

portfolios. As a consequence, it leads to a breach of social norms, which include payments for services and repayment of any debt.

4.5.1.14 Risk of Negative PR in Relation to the Group

The nature of the KRUK Group's business exposes it to the risk of spreading untrue information about dealings with the KRUK Group or information that is detrimental to the Group's image. Negative publicity may undermine the Group's credibility in the eyes of its current or potential trading partners, and consequently may have a negative effect on its financial performance. As the leader of the debt management market, the KRUK Group is also exposed to the consequences of unethical conduct of other debt management companies.

The Company's operations involve managing debt owed by natural persons. It should therefore be borne in mind that some of those persons are in difficult financial and personal circumstances, suffer from ill health or experience problems in their families or work. Among the debtors whose debts are managed by the KRUK Group there are people suffering from depression or undergoing psychiatric treatment. Some of them also have suicidal tendencies. All this gives rise to the risk of bad publicity around the operations of the KRUK Group.

The Company's business requires processing of personal data that are provided to the Group for management by the original creditor. It is possible that the received data or data obtained from another source will in fact be data of a person other than the debtor, which may lead to an increase in the number of complaints or grievances registered with the authority which supervises personal data processing. Although the Group has in place procedures designed to mitigate this risk, it ought to be remembered that such a situation may stem the publication of negative opinions about the Company and may adversely affect its image.

4.5.2 Risk management system

The risk management policies applicable at the KRUK Group are designed to:

- Identify and analyse the risks to which the Group is exposed;
- Define appropriate limits and procedures;
- Control and monitor the risk level and suitability of the risk management tools.

The risk management policies in place at the Group are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the Group. The Management Board is responsible for defining risk management procedures and overseeing their implementation. Using such tools as training, management standards and procedures, the Group seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

4.5.2.1 Managing the risk of error in estimating the fair value of acquired debt portfolios

The risk involved in debt purchases is an investment risk. Based on its many years' experience, the Group has developed a system for analysing and assessing that risk. The key tools making up the system are as follows:

- Detailed analysis and estimation of the risk as at the date of purchasing a given debt portfolio, based on advanced economic and statistical tools (the results of the analysis and estimation are reflected in the price offered in the auction);
- Quarterly revaluation of each debt portfolio held;
- Purchasing various types of debt, with various degrees of difficulty and delinquency statuses.

Having acquired by the end of 2017 as many as 694 debt portfolios and having carried out over 2,800 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the fair values of such portfolios. The information base it has compiled helps mitigate the risk of incorrect estimate of the fair value of purchased debt portfolios.

4.5.2.2 Managing the operating risk inherent in the Group's operations

The Group has put in place a quality assurance policy and specific procedures designed to manage and minimise its operating risk (e.g. procedures for reconciliation, documentation and monitoring of transactions, procedures for periodic assessment of operating risks, the requirement to report on operating losses and propose remedies).

4.5.2.3 Managing credit risk

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

- Assessment of a client's creditworthiness prior to proposing payment dates and other terms of cooperation;
- Regular monitoring of timely payment of debt;
- Maintaining a diversified client base.

The KRUK Group analyses the risk attached to the debt portfolios it purchases using advanced tools of economic and statistical analysis and its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis.

As at the date of this report, the 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.

4.5.2.4 Managing the risk of increased costs of the Group's operating activities

The Group's costs are capped in the budget approved by the Supervisory Board on an annual basis. Every manager is assigned a precisely defined share of total budgeted expenditure, corresponding to their remit. Significant costs in excess of the budget cap that will affect future economic benefits in each case require approval by the Management Board (if the budget is exceeded only within a specific remit) or by the Supervisory Board (if such additional costs result in exceeding the budget assumed for the entire KRUK Group).

Additionally, both costs and the ratios of costs to recoveries are monitored by the KRUK Group's Management Board on an ongoing basis. Thus, it is possible to early identify factors that could lower efficiency and to take appropriate corrective actions.

4.5.2.5 Managing the risk of material decline in recoveries from purchased debt portfolios

There are no individual cases managed by the Group repayments under which would represent a significant portion of total recoveries. Repayments in mass collection processes relate to a number of clients and are made independently. However, by monitoring the day-to-day repayment records, the Company is able to control the risk related to a material decline in recoveries from debt portfolios.

4.5.2.6 Managing liquidity risk

The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation.

Liquidity risk management tools used at the Group include:

- Regular monitoring of cash needs and expenses;
- Flexible management of cash flows between the Group entities;
- Conducting collection activities on an ongoing basis, ensuring continuous cash inflow;
- Ensuring the Group's compliance with financial covenants under credit facility agreements and debt instrument issues;
- Use of external sources of funding, in the form of bank borrowings or bonds.

4.5.2.7 Managing the risk of loss of experienced management staff

With a view to retaining its experienced staff, the KRUK Group takes initiatives focused on development of human resources and providing its employees with optimum working conditions. The Group offers its employees internal and external training programmes, incentive schemes, grants for financing postgraduate courses or specialised English courses or for financing the cost of obtaining professional certifications, as well as medical cards and gym membership cards. Moreover, an incentive scheme for key management staff has been put in place to ensure employee retention.

4.5.2.8 Managing the risk of IT systems' failure

The Group mitigates the risk of failure of its IT systems by ensuring that the information technologies it uses are upgraded in line with current market trends and by continuously monitoring its systems.

4.5.2.9 Managing the risk connected with related-party transactions

Any transaction to be concluded with a related party within the Group is preceded by detailed analyses of its legal and tax aspects in order to minimise the attached risk.

4.5.2.10 Risk management of material changes of the law

Changes of the law cannot be influenced by the Group. The Group always uses all necessary means to ensure the proper implementation of all changes governing its operations.

4.5.2.11 Risk management of personal data processing on a wide scale

The Group created and implemented procedures and mechanisms to minimize the risk of unlawful processing of personal data. The Group obtains personal data from legal sources only. We respect rulebooks of administrators of generally available databases. The Group records every source of the obtained personal data. People whose data was obtained are regularly informed about this in accordance with data protection regulations. Each information about potential mistake is verified and data corrected.

4.5.2.12 Risk management of low level of financial literacy

In order to prevent breaches of social norms, the Group actively participates in activities to increase financial literacy of local societies:

- Publications of guides/handbooks in press
- Organization of workshops for different social groups regarding personal budget planning, debt repayment
- Participation in social initiatives to increase financial literacy
- Informational campaigns and educational comments in media and Internet

- Cooperation with independent experts, institutions, social service, and non-profit organizations

Organization of free financial counsels

4.5.2.13 Managing the risk of negative PR in relation to the Group

The Group takes every effort to build a positive image of both the debt management industry and the entire KRUK Group. Therefore, the Group undertakes initiatives aimed at enhancing the positive image of its brand, including:

- information and media campaigns targeted at indebted individuals and companies,
- projects connected with educational campaigns in Poland and abroad, including publication of various educational materials in the internet, press, radio and television,
- educational publications that promote its amicable settlement strategy in consumer and regional magazines and newspapers in: Poland, Romania, the Czech Republic, Slovakia, and Italy,
- press releases, consumer advice articles and individual statements for the media,
- participation in charity projects aimed at supporting local communities, especially persons in need of assistance, e.g. by partnering the Business Run charity event,
- publications on the KRUK Group for the television, radio, press and the internet,
- training courses for debtors on how to get out of debt and on managing the personal budget,
- cooperation with non-profit organisations promoting financial education among the public, including with the Conference of Financial Companies in Poland (Konferencja Przedsiębiorstw Finansowych w Polsce),
- putting in place a procedure to minimise the risk of illegal processing of personal data and implementing mechanisms minimising such risk in IT systems.

4.6

Agreements executed by companies of the KRUK Group

4.6.1 Material agreements

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2017 which may be considered material to the Group's operations.

4.6.1.1 Agreements executed with non-Group companies

Execution of debt assignment agreement with Getin Noble Bank S.A. in Poland

On September 28th 2017, PROKURA NS FIZ (the Company's subsidiary) and Getin Noble Bank S.A. concluded an agreement ("Agreement", "Bank") whereby Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debts with an aggregate nominal value of PLN 419.7m.

Execution of debt assignment agreement in Italy

On June 19th 2017, a firm agreement ("Agreement") was signed between the Company's subsidiary ItaCapital S.r.l. of Milan ("Buyer") and Deutsche Bank S.p.A of Milan. The agreement provided for the purchase of unsecured consumer loan debt with a total nominal value of approximately EUR 131.7m (PLN 555m as translated at the mid-exchange rate quoted by the NBP for June 19th 2017).

Execution of debt assignment agreement with BRD Groupe Societe Generale S.A. in Romania

On May 29th 2017, a firm agreement was signed between the Company's subsidiary InvestCapital Ltd. of Malta ("InvestCapital", "Buyer") and BRD Groupe Societe Generale S.A. of Bucharest ("Agreement", "Seller"). The agreement provided for the purchase of a portfolio of secured and unsecured corporate debt with a total nominal value of RON 1.25bn (PLN 1.15bn as translated at the mid-exchange rate quoted by the NBP for May 29th 2017).

Execution of debt assignment agreement in Italy

On January 16th 2017, a firm agreement ("Agreement") was signed between the Company's subsidiary ItaCapital S.r.l. of Milan ("ItaCapital", "Buyer") and Banca IFIS of Venice. The agreement provided for the purchase of unsecured consumer loan debt with a total nominal value of approximately EUR 744.6m (PLN 3.26bn as translated at the mid-exchange rate quoted by the NBP for January 16th 2017).

4.6.1.2 Agreements executed with Group companies

On November 20th 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 14,427,835 investment certificates of PROKURA NS FIZ.

On December 22nd 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 15,352,782 investment certificates of PROKURA NS FIZ.

On December 22nd 2017, KRUK S.A. entered into an agreement with the subsidiary Secapital S.a.r.l for the purchase of 100% of shares in Presco Investments S.a.r.l.

On December 22nd 2017, KRUK S.A. contributed 173,101,000 shares in Secapital S.a.r.l to InvestCapital Ltd in exchange for 121,319,000 shares in the latter.

4.6.2 Material related-party transactions executed on a non-arm's length basis

The KRUK Group did not execute any material related-party transactions on a non-arm's length basis.

4.6.3 Loan agreements

Annexes to credit facility agreements with Bank Zachodni WBK S.A.

On October 25th 2017, an annex was signed to the trilateral revolving credit facility agreement concluded on February 18th 2013 by KRUK S.A. and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") with Bank Zachodni WBK S.A. ("Bank"), as amended ("PROKURA Agreement"), whereby a new availability end date and the maturity date were set for October 31st 2022.

On October 25th 2017, an annex was signed to the revolving credit facility agreement signed on April 8th 2011 between the Company (as the borrower) and Bank Zachodni WBK S.A., as amended ("Credit Facility Agreement"). Under the annex:

- the availability end date and the maturity date for the credit facility in the facility account of up to PLN 65m or its euro equivalent were set for October 31st 2022;
- the availability end date and the maturity date for the additional credit facility in the facility account of up to PLN 55m or its euro equivalent were set for October 31st 2020.

The Credit Facility Agreement stipulates that the borrower may use the credit facility up to PLN 120m (or its euro equivalent) to refinance or finance debt portfolio purchases in Poland, Romania, the Czech Republic, Slovakia and Germany.

In connection with the PROKURA Agreement, as amended, and the Loan Agreement as amended, November 20th 2017 to secure the Bank's receivables under the aforementioned loan agreements, KRUK S.A. and Bank Zachodni WBK S.A. entered into a registered pledge agreement on investment certificates in the number of 8,964,814 shares, issued by PROKURA NS FIZ held by KRUK S.A. Under the registered pledge agreement, a financial pledge was also established. It expired upon the entry of the registered pledge in the pledge register, i.e. on December 21st 2017. As at December 29th 2017, the carrying amount of the investment certificates pledged in favour of Bank Zachodni WBK S.A. in KRUK S.A.'s accounting books was PLN 217.4m.

The security for the credit facilities extended under the Credit Facility Agreement and the PROKURA Agreement also includes a surety under civil law issued by KRUK S.A., a power of attorney over the Borrower's and the surety provider's selected accounts, as well as the Company's and the surety provider's declarations of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure.

No other material provisions of the PROKURA Agreement and the Credit Facility Agreement, including in particular those relating to the disbursement of the facilities, default interest and withdrawal from or termination of the Agreements, were changed.

Annex to a credit facility agreement concluded by NSFIZ PROKURA and KRUK S.A. with mBank S.A.

On September 1st 2017, an annex was signed to the trilateral revolving credit facility agreement concluded on July 2nd 2015 between KRUK S.A., the subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ" or "Borrower") and mBank Spółka Akcyjna ("Bank"), as amended ("Credit Facility Agreement") for a credit facility of up to PLN 100m ("Credit Facility"). Under the annex, a new maturity date was set for July 1st 2022. The Credit Facility was advanced for the financing or refinancing of up to 75% of the purchase price/instalment of the purchase price of debt portfolios to be purchased by the Borrower, in an amount of PLN 100m in the period until January 1st 2020 and thereafter, in the period from January 2nd 2020 to July 1st 2022, the credit limit will be reduced quarterly by PLN 10m during the first six quarters and by PLN 8m during the remaining four quarters. The Credit Facility's interest rate was set on an arms' length basis, at a rate equal to the WIBOR rate for one-month interbank deposits in PLN, plus bank margin. All other material provisions of the Credit Facility Agreement, including in particular the provisions relating to default interest and possible withdrawal from or termination of the Agreement, remained unchanged.

The Bank's receivables under the Credit Facility Agreement, that is the principal amount of up to PLN 100m as well as interest, fees, commissions and expenses (if any), are secured with a financial pledge over rights to cash in PROKURA NS FIZ's bank account and a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). As at December 29th 2017, the carrying amount of the registered pledge in KRUK S.A.'s accounting books was PLN 84.7m. The established security also includes a surety under civil law issued by KRUK S.A., a power of attorney over the Borrower's and the surety provider's selected accounts and a financial pledge over the Borrower's selected account.

Following the execution of a revolving facility agreement between PROKURA NS FIZ, KRUK S.A. and mBank S.A. on July 2nd 2015, as amended, on January 18th 2018, in order to establish security for the bank's receivables under the credit facility agreement, Prokura NS FIZ and mBank S.A. entered into three agreements creating a registered

pledge over a set of rights (debt portfolios held by PROKURA NS FIZ). On January 19th 2018, applications to enter the pledge in the pledge register were filed with the relevant court. As at December 29th 2017, the carrying amount of the registered pledge in KRUK S.A.'s accounting books was PLN 66m.

Syndicated credit facility agreement concluded by InvestCapital LTD and KRUK S.A. with DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A.

On July 3rd 2017, KRUK S.A. and the subsidiary InvestCapital Ltd. ("Borrower") entered into a revolving multi-currency credit facility agreement with DNB Bank ASA of Oslo, ING Bank Śląski S.A. of Katowice, Bank Zachodni WBK S.A. of Wrocław, and mBank S.A. of Warsaw ("Lenders"), as announced by the Company in Current Report No. 35/2017 of July 3rd 2017. The Agreement provides for a revolving multi-currency credit facility of up to EUR 250m ("Credit Facility"). Under the terms and conditions of the Agreement, the Credit Facility tranches can be used to finance or refinance debt portfolio purchases made by the borrower in European markets, with the exception of Poland. The Credit Facility is granted for a period of five years from the Agreement date. The interest rate on the facility was set on an arms' length basis at a currency-specific IBOR plus margin.

The collateral for the Lenders' receivables under the syndicated credit facility agreement are pledges or other encumbrances over designated foreign portfolios held by the Borrower ("Portfolios") and a pledge over the deposit account in which the Borrower holds particular bonds ("Bonds"). As at December 29th 2017, the carrying amount of the pledged assets was PLN 603.4m. The collateral also includes surety provided by KRUK S.A. and KRUK S.A.'s declaration of submission to enforcement, each for up to EUR 375m, and pledges over bank accounts into which Portfolio recoveries are directly or indirectly paid, as well as over the bank account into which proceeds from the Bonds are paid.

The Agreement stipulates no additional conditions precedent or subsequent, or contractual penalties. The other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

Pledge agreement with BGŻ BNP Paribas S.A.

In connection with the revolving credit facility agreement concluded between KRUK S.A. and BGŻ BNP Paribas S.A. on October 3rd 2014, as amended, on December 1st 2017, in order to secure the bank's receivables under the credit facility agreement, BGŻ BNP Paribas S.A. and KRUK S.A. entered into an agreement on registered pledge over 5,463,021 investment certificates issued by PROKURA NS FIZ and held by KRUK S.A. Additionally, a financial pledge was created under the registered pledge agreement. The financial pledge expired upon the entry of the registered pledge into the pledge register, i.e. on January 5th 2018. As at December 29th 2017, the carrying amount of the

investment certificates pledged in favour of BGŻ BNP Paribas S.A. in KRUK S.A.'s accounting books was PLN 132.5m.

Termination of credit facility and loan agreements

In 2017, the KRUK Group companies, except for Novum Finance Sp. z o.o. and KRUK S.A. in the NOVUM loans segment, did not terminate any credit facility or loan agreements.

4.6.4 Loans advanced, sureties and guarantees granted; loans, sureties and guarantees received

4.6.4.1 Loans advanced by KRUK S.A. to its subsidiaries

In 2017, KRUK S.A. granted loans to its subsidiaries in the total amount of PLN 67.65m (as translated at the exchange rates quoted by the NBP for the loan grant dates). The loans were advanced to:

- KRUK ROMANIA S.R.L. of Bucharest,
- KRUK Česká a Slovenská republika s.r.o. of Hradec Králové,
- Novum Finance Sp. z o.o. of Wrocław,
- Secapital Polska Sp. z o.o. of Wrocław.

The interest rates were set at 1M or 3M WIBOR (for PLN loans), 1M or 3M PRIBOR (for CZK loans), 1M or 3M EURIBOR (for EUR loans) and 1M or 3M ROBOR (for RON loans) plus margin. The agreed maturities of the loans financing the companies' operating activities ranged from 350 days to one year. The agreed maturities of the loans financing the companies' investing activities ranged from one to six years.

Loans advanced to KRUK ROMANIA S.R.L. of Bucharest

The loans were granted to KRUK ROMANIA S.r.l of Bucharest to finance its investing activities. The loans granted in 2017 totalled PLN 20.5m (as translated into PLN at the exchange rates quoted by the NBP for the loan grant dates).

As at December 31st 2017, the liabilities of KRUK ROMANIA S.R.L. towards KRUK S.A. under loans (principal) totalled PLN 69m (translated into PLN at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2017).

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové were intended for the financing of the company's operating and investing activities. The loans granted in 2017 totalled PLN 46.53m (as translated into PLN at the exchange rates quoted by the NBP for the loan grant dates).

Some of the loans granted in 2015 and 2016, of PLN 22.09m plus interest of PLN 0.78m, that is PLN 22.87m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for March 31st 2017), were converted into capital – contribution to capital reserves other than the share capital.

Some of the loans granted in 2017, of PLN 14.49m less interest (as translated into PLN at the exchange rate quoted by the NBP for December 29th 2017), were cancelled.

As at December 31st 2017, all liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK S.A. under loans (principal) totalled PLN 39.92m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 29th 2017).

Loans advanced to Credit Base International S.r.l. of La Spezia and Kruk Italia S.r.l. of Milan

In 2017, the above companies did not receive any loans from KRUK S.A. The loans of PLN 1.6m granted in 2016 to CBI (plus interest) were converted into statutory reserve funds (as translated into PLN at the exchange rate quoted by the NBP for November 16th 2017). The conversion agreement was signed with Kruk Italia S.r.l, which took over CBI during the year and assumed all liabilities of that company. As at December 31st 2017, Kruk Italia S.r.l had no outstanding liabilities towards KRUK S.A. under loans.

Loans advanced to InvestCapital Ltd. of Malta

In 2017, InvestCapital Ltd. repaid its liabilities towards KRUK S.A. under loans received in previous years. As at December 31st 2017, InvestCapital Ltd. had no outstanding liabilities towards KRUK S.A. under loans.

Loans advanced to ERIF Business Solutions Sp. z o.o. of Wrocław

In 2017, ERIF Business Solutions Sp. z o.o. did not receive any loans from KRUK S.A.

As at March 31st 2017, ten loans totalling PLN 1.3m (plus interest) comprising the remaining portion of the loans granted to that company in 2013 and a portion of the loans granted in 2014 were cancelled.

As at December 31st 2017, ERIF Business Solutions Sp. z o.o. of Wrocław's outstanding liabilities towards KRUK S.A. under loans plus interest amounted to PLN 1.33m.

Loans advanced to Secapital Polska Sp. z o.o. of Wrocław

Loans advanced to Secapital Polska Sp. z o.o. of Wrocław were intended for the financing of the company's operations. In 2017, the loans totalled PLN 0.02m.

As at December 31st 2017, outstanding liabilities of Secapital Polska Sp. z o.o. towards KRUK S.A. under loans plus interest totalled PLN 0.1m.

Loans advanced to Kancelaria Prawna RAVEN P. Krupa spółka komandytowa of Wrocław

In 2017, Kancelaria Prawna RAVEN P. Krupa sp. k. repaid liabilities towards KRUK S.A. under loans received in previous years. As at December 31st 2017, Kancelaria Prawna RAVEN P. Krupa sp. k. of Wrocław had no outstanding loan liabilities towards KRUK S.A.

Loans advanced to Novum Finance Sp. z o.o. of Wrocław

In 2017, KRUK S.A. granted Novum Finance Sp. z o.o. of Wrocław a loan of PLN 0.6m for the financing of the company's operating activities. As at December 31st 2017, the company's outstanding liabilities towards KRUK S.A. under loans, including interest, amounted to PLN 18.4m.

4.6.4.2 Loans received by the Company from subsidiaries

Loans from Novum Finance Sp. z o.o. of Wrocław

In 2017, KRUK S.A. repaid its liabilities towards Novum Finance under loans received in previous years, including interest. As at December 31st 2017, the Company had no outstanding liabilities towards Novum Finance Sp. z o.o. under loans.

Loans from Espand Soluciones de Gestion S.L. and KRUK Espana S.L.

In 2017, the Company received a loan of PLN 2.1m from Espand Soluciones de Gestion S.L. (as translated into PLN at the exchange rate quoted by the NBP for the loan date), repaid in full. As at December 31st 2017, the Company had no outstanding loan liabilities towards KRUK Espana S.L. (which took over Espand Soluciones de Gestion S.L. during the year).

Loan from RoCapital I.F.N. of Bucharest

In 2017, the Company did not receive any loans from RoCapital I.F.N. As at December 31st 2017, the Company's outstanding liabilities towards RoCapital I.F.N. under the loan, including interest, amounted to PLN 8.4m.

Loans from ERIF Biuro Informacji Gospodarczej S.A. of Warsaw

Loans received from ERIF BIG S.A. of Warsaw were intended for the financing of the Company's operating activities. Loans received in 2017 totalled PLN 2.9m.

As at December 31st 2017, the Company's outstanding liabilities towards ERIF BIG S.A. under loans, including interest, amounted to PLN 4.9m.

4.6.4.3 NOVUM loans advanced by the KRUK Group

In 2017, the KRUK Group advanced an aggregate of 8 thousand NOVUM cash loans for a net amount of PLN 27.5m, including 7.5 thousand loans for a net amount of PLN 26.5m on the Polish market. In 2016, sales of NOVUM loans were also launched in Romania. In 2017, 0.5 thousand cash loans were advanced for a net amount of PLN 1m. As part of the NOVUM business line, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market. In 2017, NOVUM loans were also offered in Poland to natural persons who had not been the KRUK Group's clients. Revenue from the NOVUM business line reported by the Group in 2017 was PLN 13.1m, including PLN 12.9m from the NOVUM business line in Poland, down 22% year on year.

Loans advanced by subsidiaries to other subsidiaries

Loans advanced by InvestCapital LTD to ItaCapital S.r.l.

In 2017, InvestCapital LTD of Malta advanced to ItaCapital S.r.l. of Milan a loan of PLN 272.6m (as translated at the exchange rate quoted by the NBP for the loan date), which was intended for the financing of the company's investing activities. As at December 31st 2017, the outstanding liabilities of ItaCapital S.r.l. towards InvestCapital Malta LTD under loans (principal) stood at PLN 8.6m (as translated into PLN at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2017).

Loans advanced by KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to Prokura NS FIZ fund

In 2017, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław advanced to Prokura NS FIZ of Wrocław a loan of PLN 18,258.4m, which was intended for the financing of the fund's investing activities.

As at December 31st 2017, the PROKURA NS FIZ fund's outstanding liabilities towards KRUK Towarzystwo Funduszy Inwestycyjnych S.A. under loans (principal) stood at PLN 18.25m.

4.6.4.4 Guarantees

Guarantees received

On December 8th 2017, the Company signed Annex 3 to a bank guarantee agreement with Bank Zachodni WBK S.A. and received Annex 3, dated December 11th 2017, to the bank guarantee of December 17th 2014 issued to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a lease agreement for a part of an office building, executed between the Company and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2018. The guarantee amount is EUR 278,716.43 and PLN 186,303.75. The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A.

Guarantees issued

In connection with a PLN 17.5m share capital cancellation in InvestCapital Ltd. completed on September 25th 2017, which was to become final by January 2nd 2018, on September 25th 2017 KRUK S.A. issued to InvestCapital Ltd. a corporate guarantee of up to PLN 17.5m. The guarantee expired on January 2nd 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by January 2nd 2018.

In connection with a PLN 9m share capital cancellation in InvestCapital Ltd. completed on October 24th 2017, which became final on January 24th 2018, on October 24th 2017 KRUK S.A. issued a corporate guarantee of up to PLN 9m to InvestCapital Ltd. The guarantee expired on January 24th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by January 24th 2018.

4.6.4.5 Sureties

Following the conclusion on July 3rd 2017 of a revolving multi-currency credit facility agreement between KRUK S.A., InvestCapital LTD ("Borrower"), DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A., and mBank S.A., KRUK S.A. issued a surety for the liabilities of InvestCapital LTD under the agreement (announced by KRUK S.A. in Current Report No. 35/2017). The surety was issued for up to EUR 375m for the term of the revolving multi-currency credit facility agreement. In accordance with the revolving multi-currency credit facility agreement, on July 3rd 2017 the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to EUR 375m.

Following the execution by PROKURA NS FIZ, the Company, and mBank S.A., on September 1st 2017, of an annex to the revolving credit facility agreement of July 2nd 2015, on September 1st 2017 the Company signed Annex 2 to the surety agreement of July 2nd 2015 with mBank S.A. (as announced by KRUK S.A. in Current Report No. 39/2015), whereunder KRUK S.A. issued a surety for the liabilities of PROKURA NS FIZ under the revolving credit facility agreement, as amended, thus becoming a joint and several debtor in respect of the liabilities. The surety was issued for up to PLN 150m. It will expire on or before July 1st 2025.

4.7

Court, administration and arbitration proceedings

4.7.1 General information

In the ordinary course of their business, the Company and its subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2017, the Company and its subsidiaries were plaintiffs or participants in 623,538 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 24,633,902,267.70. Furthermore, in 2017, 803,566 enforcement proceedings were pending upon motions filed by the Company and its subsidiaries, with a total value of claims being enforced of PLN 3,466,593,501. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and its subsidiaries.

In 2017, the Company and its subsidiaries were defendants in 9,605 court proceedings, with a total value of claims of PLN 1,208,468,758. They were chiefly proceedings against enforcement instigated in connection with the Company's or its subsidiaries' operating activities involving debt recovery. The Company and its subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or its subsidiaries where the value of claims would exceed 10% of the Company's equity.

No bankruptcy or recovery proceedings were conducted with respect to the Company or its subsidiaries.

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4.7.2 Proceedings where the value of claims exceeds 10% of the Company's equity

There were no proceedings involving the Company or its subsidiaries where the value of claims would exceed 10% of the Company's equity.

4.7.3 Proceedings with the highest value of claims of up to 10% of the Company's equity, concerning the Company's and its Subsidiaries' liabilities

Among the proceedings concerning liabilities where the value of claims did not exceed 10% of the Company's equity, the Company identifies three claims with the highest value — PLN 51,693,234.77 each — that were brought in the proceedings against Investcapital LTD for annulment of contract and (or) abusive clauses, pending in Romania. The subsidiary expects the claims to be dismissed in their entirety.

4.7.4 Proceedings with the highest value of claims of up to 10% of the Company's equity, concerning debts owed to the Company and its Subsidiaries

Among court proceedings concerning debts where the value of claim does not exceed 10% of the Company's equity, the case with the largest value of the claim — approximately PLN 201,568,373.06 — was the bankruptcy case concerning Investcapital Ltd's claims against LABARO GRUPO INMOBILIARIO, S.A., pending in Spain. The Company expects to recover approximately 30% of the value of the claim within the next nine years. Moreover, proceedings are pending in Spain, concerning Investcapital Ltd's claims against GLOBAL CONSULTING PARTNERS, S.L. The value of the claim is approximately PLN 68,905,470. The company expects difficulty in recovering this debt. There are also the bankruptcy proceedings in which a claim for payment of PLN 56,283,321.91 was lodged by BISON NSFIZ against Stocznia Szczecińska Porta Holding S.A. w upadłości likwidacyjnej (in liquidation bankruptcy). The fund expects that only a small portion of

4.8

Material events after December 31st 2017

There were no material events after December 31st 2017

4.9

Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to facilitate the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2017, the strategy of building the platform to support operating processes remained unchanged – the Company's internal resources continued to develop the platform, improving its flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its key operational processes.





Corporate governance

Statement of compliance with corporate
governance standards

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Governing bodies

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Articles of Association

Key features of internal control and risk
management systems used in the process of
preparation of financial statements and
consolidated financial statements

5.1

Statement of compliance with corporate governance standards

Following the adoption by the WSE Supervisory Board of the Best Practice for WSE Listed Companies 2016 by way of Resolution No. 26/1413/2015 of October 13th 2015, the Management Board adopted, by way of Resolution No. 1/2016, a statement of compliance with the Best Practice for WSE Listed Companies 2016. The scope of application by the Company of the corporate governance standards set forth in the document was also specified in EBI Report No. 1/2016, published by the Company on January 4th 2016.

The text of the statement, specifying the extent to which the Company intends to comply with the standards, is available on KRUK S.A.'s website, at:

<http://pl.kruk.eu/pl/dla-inwestora/spolka/dokumenty-korporacyjne/>

5.1.1 Adopted code of corporate governance

In 2016, the Company applied the corporate governance standards described in the Best Practice for WSE Listed Companies 2016 (Corporate Governance Principles, the Code of Best Practice), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13th 2015. The document is available on the Warsaw Stock Exchange website dedicated to corporate governance.

<http://www.corp-gov.gpw.pl>

5.1.2 Corporate governance standards which the Company elected not to comply with

As per the Management Board's statement, in 2016 the Company declared compliance with corporate governance standards set forth in the Best Practice for WSE Listed Companies 2016, save for the exceptions described below.

The Company elected not to comply with principle III.Z.3 of the Code of Best Practice 2016, whereby the independence criteria specified in the generally recognised International Standards for the Professional Practice of Internal Auditing apply to a person managing the internal

audit function and to other people responsible for performance of the related tasks. The Management Board would like to note that the Company has a separate internal audit unit in its organisational structure. This unit is objective, independent and impartial, it reports directly to the President of the Management Board, and has the possibility to submit its reports directly to the audit committee, in accordance with principle III.Z.2. However, the principles of organisational independence developed by the Institute of Internal Auditors (USA), i.e. the principle of direct functional reporting to the Supervisory Board, does not apply to the person managing the internal audit function. In the opinion of the Management Board of KRUK S.A., transposition of the US legal regulations to Poland would cause dual responsibility of the person managing the internal audit function, which would be unfavourable to the Company.

The Company elected not to comply with the recommendation included in IV.R.2. of the Code of Best Practice 2016, whereby, if justified by the structure of shareholders or expectations of shareholders notified to the company, the company should enable its shareholders to participate in a general meeting using electronic communication means, in particular using real-time broadcast of general meetings and real-time bilateral communication, where shareholders may take the floor during a general meeting from a location other than the general meeting and to exercise voting rights during a general meeting either in person or through a proxy. This recommendation applies to a situation where the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means. In the Management Board's opinion, KRUK S.A.'s free float is not significant enough to justify holding General Meetings using means of electronic communication. The Company's major shareholders are professional investors, both Polish and foreign, represented at General Meetings by proxies. As far as the Company is currently aware, the existing manner of conducting General Meetings is in line with its shareholders' expectations. At the same time, the Company has identified certain risks to the proper conduct of General Meetings, particularly legal risks, which in the Company's opinion would outweigh the potential benefit of a larger number of shareholders being able to participate.

For the same reasons, the Company elected not to comply with principle IV.Z.2, under which, if justified by the structure of shareholders, a company must ensure publicly available real-time broadcasts of general meetings.

5.2

Shareholding structure

5.2.1 Shareholders holding directly or indirectly major holdings in KRUK S.A.

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at January 1st 2017, based on shareholder notifications received by the Company.

Table 28. Major holdings in KRUK S.A. as at January 1st 2017

Shareholder	Number of shares / voting rights	Ownership interest (%)
Piotr Krupa	1,919,841	10,82
NN PTE*	1,992,000	11,23
Aviva OFE**	1,100,000	6,20
Generali OFE**	1,065,000	6,00

(* Joint shareholding of N-N OFE and N-N DFE, managed by N-N PTE S.A. (** Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on November 29th 2016 Source: the Company.

The Table 27 presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at December 31st 2017.

Table 29. Major holdings in KRUK S.A. as at December 31st 2017

Shareholder	Number of shares / voting rights	Ownership interest (%)
Piotr Krupa	1,963,407	10,44
NN PTE*	2,100,000	11,17
Aviva OFE*	1,149,000	6,11

(* Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on May 15th 2017. Source: the Company.

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at February 27th 2018.

Table 30. Major holdings in KRUK S.A. as at the report issue date

Shareholder	Number of shares / voting rights	Ownership interest (%)
Piotr Krupa	1,963,407	10,44
NN PTE*	2,100,000	11,17
Aviva OFE*	1,149,000	6,11

(* Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on May 15th 2017. Source: the Company.



5.2.2 Changes in the shareholding structure in the reporting year

Below are described changes in significant holdings of KRUK S.A. shares in 2017.:

- On March 23th 2017, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 14,000 shares in KRUK S.A. for the average price of PLN 231.55 per share on March 22nd 2017.
- On May 9th 2017, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 10,594 shares in KRUK S.A. for the average price of PLN 301.29 per share on May 4th 2017, 8,000 shares in KRUK S.A. for the average price of PLN 294.40 per share on May 5th 2017, and 10,000 shares in KRUK S.A. for the average price of PLN 294.80 per share on May 8th 2017.
- On June 23rd 2017, KRUK S.A. received the following share disposal notice from Generali Powszechne Towarzystwo Emerytalne S.A., with its registered office at ul. Postępu 15B, 02-676 Warsaw, Poland: "In compliance with the notification requirement under Art. 69 in conjunction with Art. 87.1.3.b. of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz.U. of 2016, item 1639) (the "Act on Public Offering"), Generali Powszechne Towarzystwo Emerytalne S.A., the management company of Generali Otwarty Fundusz Emerytalny and Generali Dobrowolny Fundusz Emerytalny (jointly the "Funds"), with its registered office at

ul. Postępu 15B, Warsaw, Poland, hereby notifies KRUK S.A. that the Funds decreased their share in total voting rights at KRUK S.A. (the "Company") to less than 5% of total voting rights in the Company. The Funds' share in total voting rights in the Company decreased following the sale of shares on June 20th 2017. Prior to the change, the Funds held 939,238 shares, representing 5.01% of the Company's share capital, and 939,238 votes, representing 5.01% of total voting rights at the Company's General Meeting. Following the change in the shareholding, the Funds held 925,238 shares in KRUK S.A., representing 4.94% of the Company's share capital, and 925,238 votes, representing 4.94% of total voting rights at the Company's General meeting. No subsidiaries of the Funds hold any shares in the Company, and no such persons exist as are referred to in Art. 87.1.3.c. of the Act on Public Offering. As calculated in accordance with Art. 69b.2. of the Act on Public Offering, there are no voting rights attached to shares which the Funds would be entitled or obliged to purchase as holders of financial instruments referred to in Art. 69b.1.1. and Art. 69b.1.2. of the Act on Public Offering and not exercised exclusively through cash settlement. As calculated in accordance with Art. 69b.3. of the Act on Public Offering, there are no voting rights attached to shares which are directly or indirectly related to the financial instruments referred to in Art. 69b.1.2. of the Act on Public Offering. Calculated in accordance with Art. 69.4.9., the total number of votes is 939,238, representing 5.01% of total voting rights."

- On September 7th 2017, the Company received a notification from Mr Piotr Krupa, given under Article 19 of the MAR, to the effect that on September 6th 2017 Mr Krupa had acquired 48,000 shares in KRUK S.A., for the average price of PLN 316.79 per share, in ordinary session trades on the Warsaw Stock Exchange.
- On September 21st 2017, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR, to the effect



that he had sold 10,000 Company shares in ordinary session trades executed on the Warsaw Stock Exchange on September 19th 2017, for the average price of PLN 303.80 per share.

- On September 25th 2017, the Company received a notification from Mr Piotr Krupa, given under Article 19 of the MAR, to the effect that on September 22nd 2017 Mr Krupa had acquired 17,660 shares in KRUK S.A., for the average price of PLN 282.52 per share, in ordinary session trades on the Warsaw Stock Exchange.
- On December 18th 2017, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 1,008 shares in KRUK S.A. for the average price of PLN 263.15 per share on December 13th 2017, 13,907 shares in KRUK S.A. for the average price of PLN 265.56 per share on December 14th 2017, and 4,585 shares in KRUK S.A. for the average price of PLN 265.98 per share on December 15th 2017.

5.2.3 Treasury shares

Treasury shares in the period June 1st 2016 – May 31st 2018

The Extraordinary General Meeting of KRUK S.A. of May 9th 2016 passed a resolution authorising the Management Board to purchase the Company’s own shares listed on the main market of the WSE, in the period from June 1st 2016 to May 31st 2018, with the proviso that the total par value of the shares so purchased may not exceed PLN 3,503,149, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 300m, including the share price and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 200 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares acquired by the Company as part of the buy-back programme may be used to cancel the Company’s own shares and reduce its share capital.

The Management Board may, depending on the Company’s interests, finish the buy-back of shares before May 31st 2018 or before all funds intended to be spent on the buy-back programme are used up, or may altogether abandon the buy-back of shares in whole or in part.

In 2016 and 2017, the Company did not buy back any of its shares.

5.2.4 Holders of securities conferring special control powers

KRUK S.A. did not issue any securities conferring special control powers on its shareholders.

5.2.5 Limitations on the exercise of voting rights

KRUK S.A.’s Articles of Association do not provide for any limitations concerning the exercise of voting rights at the General Meeting.

5.2.6 Limitations on transfer of ownership of securities

The Company’s Articles of Association do not provide for any limitations on transfer of ownership of KRUK securities.

5.2.7 Agreements which may give rise to changes in ownership interests held by the existing shareholders or bondholders

The Company is not aware of any agreements which, in the future, could give rise to changes in ownership interests held by existing shareholders and bondholders.

5.3

Governing bodies






[G4-34]

5.3.1 Management Board

5.3.1.1 Composition of the Management Board, changes thereto and rules of appointment

The Company’s management body is the Management Board. In the period January 1st – December 31st 2017, the Management Board consisted of five members. Composition of the Management Board in 2017 is presented in the table below.

Table 31. Composition of the Management Board of KRUK S.A. in 2017

Piotr Krupa		CEO and President of the Management Board
Agnieszka Kułton		Member of the Management Board
Urszula Okarma		Member of the Management Board
Iwona Słomska		Member of the Management Board
Michał Zasępa		Member of the Management Board

Rules governing appointment and removal of members of the Management Board and their powers are set forth in the Company's Articles of Association. Pursuant to Articles 7.1 and 7.2, the Management Board is composed of three to eight members, and the number of members is defined each time by the Supervisory Board upon request by the President of the Management Board.

The President of the Management Board is appointed and removed by the Supervisory Board. The other members of the Management Board are also appointed and removed by the Supervisory Board, following a request by the President of the Management Board.

Members of the Management Board are appointed for a joint three-year term of office.

The mandate of a member of the Management Board expires on or before the date of the General Meeting approving the financial statements for the last full financial year in which the member held the office.

5.3.1.2 Powers of the Management Board

The Management Board, led by the President, manages the Company's business and assets, and represents the Company before courts, government authorities and third parties. Pursuant to Article 8.1 of the Articles of Association, the Management Board makes decisions on any matters not reserved for the exclusive competence of the Supervisory Board or the General Meeting under the Articles of Association or applicable laws. The President of the Management Board is solely authorised to decide on the establishment and liquidation of any organisational units at the Company.

Resolutions of the Management Board are passed with a simple majority of votes. In the case of a voting tie, the President of the Management Board has the casting vote.

A declaration of will on behalf of the Company may be made by: (i) two members of the Management Board acting jointly; (ii) a Management Board member acting jointly with a commercial proxy; or (iii) an attorney authorised to perform certain types of activities, acting on their own under a written power of attorney granted by the Company. Apart from those mentioned above, the Company's Articles of Association do not provide for any additional powers for the management personnel, such as the power to decide on issue or repurchase of shares.

By virtue of Resolution No. 33/2016 of the Annual General Meeting of KRUK S.A. of Wrocław, held on

May 9th 2016, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

5.3.1.3 Shares in the Company and in the Company's related entities held by Management Board members

Table 30 presents Company shares or rights to Company shares held by Management and Supervisory Board members as at January 1st 2017.



Table 32. KRUK S.A. shares held by Management and Supervisory Board members as at January 1st 2017

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,919,841	1,919,841
Agnieszka Kulon	Member of the Management Board	61,611	61,611
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	41,110	41,110
Michał Ząsepa	Member of the Management Board	35,383	35,383
Tomasz Bieske	Member of the Supervisory Board	642	642

Apart from the changes in the number of shares held by Piotr Krupa, President of the Management Board, described in the Section entitled Shareholding structure, in the period from January 1st 2017 to the date of issue of this report there were also changes in the holdings of Company shares held by Iwona Słomska, Urszula Okarma, Agnieszka Kulton, Michał Zasępa, and Tomasz Bieske, as described below.

On March 20th 2017, the Company received a notification from Agnieszka Kulton, given under Article 19 of the MAR. According to the notification, Ms Kulton had sold, in ordinary session trades on the Warsaw Stock Exchange, 611 shares in KRUK S.A. for the average price of PLN 242.80 per share on March 15th 2017, 2,535 shares in KRUK S.A. for the average price of PLN 240.69 per share on March 16th 2017, and 2,465 shares in KRUK S.A. for the average price of PLN 239.41 per share on March 17th 2017.

On May 9th 2017, the Company received a notification from Iwona Słomska, given under Article 19 of the MAR, to the effect that Iwona Słomska had sold, in ordinary session trades on the Warsaw Stock Exchange, 32 shares in KRUK S.A. for the average price of PLN 240.00 per share on March 17th 2017 and 4,328 shares in KRUK S.A. for the average price of PLN 294.50 per share on May 4th 2017.

On May 15th 2017, the Company received a notification from Michał Zasępa, given under Article 19 of the MAR, to the effect that Michał Zasępa had sold, in ordinary session trades on the Warsaw Stock Exchange, 992 shares in KRUK S.A. for the average price of PLN 310.83 per share on May 11th 2017 and 3,000 shares in KRUK S.A. for the average price of PLN 316.17 per share on May 12th 2017.

On May 18th 2017, the Company received a notification from Agnieszka Kulton, given under Art. 19 of the MAR. According to the notification, on May 16th 2017 Agnieszka Kulton had sold, in ordinary session trades on the Warsaw Stock Exchange, 6,000 shares in KRUK S.A. for an average price of PLN 306.15 per share.

On July 20th 2017, the Company received a notification from Agnieszka Kulton, given under Article 19 of the MAR, to the effect that on July 19th 2017 Agnieszka Kulton had sold, in ordinary session trades on the Warsaw Stock Exchange, 5,000 shares in KRUK S.A. for the average price of PLN 317.93 per share.

On September 11th 2017, the Company received a notification from Mr Tomasz Bieske, given under Article 19 of the MAR, to the effect that on September 7th 2017 Mr Bieske had acquired 350 shares in KRUK S.A., for the average price of PLN 306.28 per share, in ordinary session trades on the Warsaw Stock Exchange.

On September 12th 2017, the Company received a notification from Mr Tomasz Bieske, given under Article 19 of the MAR, to the effect that on September 12th 2017 Mr Bieske had acquired 230 shares in KRUK S.A., for the average price of PLN 301.95 per share, in ordinary session trades on the Warsaw Stock Exchange.

On September 25th 2017, the Company received a notification from Michał Zasępa, given under Article 19 of the MAR, to the effect that on September 22nd 2017 he had acquired 800 Company shares in ordinary session trades executed on the Warsaw Stock Exchange, for the average price of PLN 282.48 per share.



Table 33. KRUK S.A. shares held by Management and Supervisory Board members as at December 31st 2017

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,963,407	1,963,407
Agnieszka Kulton	Member of the Management Board	45,000	45,000
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	36,750	36,750
Michał Zasępa	Member of the Management Board	32,191	32,191
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

List of notifications received from the management and supervisory personnel in 2017.

Piotr Krupa – summary of notifications in 2017

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
March 23 2017	March 22 2017	14,000	Sale	PLN 231.55	WSE
May 9th 2017	May 4th 2017	10,594	Sale	PLN 301.29	WSE
	May 5th 2017	8,000	Sale	PLN 294.40	WSE
	May 8th 2017	10,000	Sale	PLN 294.80	WSE
September 7th 2017	September 6th 2017	48,000	Purchase	PLN 316.79	WSE
September 5th 2017	September 19th 2017	10,000	Sale	PLN 303.80	WSE
September 25th 2017	September 19th 2017	17,660	Purchase	PLN 282.52	WSE
Dec 18 2017	Dec 13 2017	1,008	Sale	PLN 263.15	WSE
	Dec 14 2017	13,907	Sale	PLN 265.56	WSE
	Dec 15 2017	4,585	Sale	PLN 265.98	WSE

Michał Zasepa – summary of notifications in 2017

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
May 15th 2017	May 11th 2017	992	Zbycie	310,83 zł	GPW
	May 12th 2017	3 000	Zbycie	316,17 zł	GPW
September 25th 2017	September 22nd 2017	800	Nabycie	282,48 zł	GPW

Agnieszka Kulon – summary of notifications in 2017

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
March 20th 2017	March 15th 2017	611	Sale	PLN 242.80	WSE
	March 16th 2017	2,535	Sale	PLN 240.69	WSE
	March 17th 2017	2,465	Sale	PLN 239.41	WSE
May 18th 2017	May 16th 2017	6,000	Sale	PLN 306.15	WSE
July 20th 2017	July 19th 2017	5,000	Sale	PLN 317.93	WSE

Tomasz Bieske – summary of notifications in 2017

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
September 11th 2017	September 7th 2017	350	Purchase	PLN 306.28	WSE
September 12th 2017	September 12th 2017	230	Purchase	PLN 301.95	WSE

Members of the management or supervisory bodies holding Company shares or rights to Company shares as at the report issue date.

Table 34. KRUK S.A. shares held by Management and Supervisory Board members as at the report issue date

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,963,407	1,963,407
Agnieszka Kulon	Member of the Management Board	45,000	45,000
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Stomska	Member of the Management Board	36,750	36,750
Michał Zasępa	Member of the Management Board	32,191	32,191
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

Źródło: Spółka.



5.3.1.4 Remuneration, bonuses and employment contract terms of the Management Board members

Pursuant to Article 7.8 of the Company's Articles of Association, the rules of remuneration of the Management Board members and the amount of remuneration of the President of the Management Board are determined by the Supervisory Board. The amounts of remuneration of the individual Management Board members other than the President are determined by the Supervisory Board, based on proposals submitted by the President of the Management Board and in line with the remuneration rules defined by the Supervisory Board.

Under the managerial contracts that have been in force since January 1st 2017, the Management Board members are entitled to monthly remuneration in the amounts specified therein. Irrespective of their salary, they may receive discretionary bonuses. The decision on the award and amounts of discretionary bonuses rests with the Supervisory Board.

The terms of the managerial contracts correspond to the terms of mandates of the Management Board members: they expire with the expiry of a given mandate, including as a result of removal or resignation from office of the Management Board member. Furthermore, a managerial contract may be terminated by its parties on six months' notice, or on three months' notice, without compensation, in the event of liquidation or dissolution of the Company, long sick absence of the Manager, or other kind of inability to perform his or her duties in the period covered by the contract. Managerial contracts may also be terminated by its parties without notice and compensation, with immediate effect, in circumstances indicated in the contracts.

In accordance with the executed contracts, in the event of termination or rescission of a contract by the Company, unless termination takes place in circumstances where the contract may be terminated with immediate effect, without notice or compensation and except where a Management Board member is removed for reasons attributable to that member, the Management Board member is entitled to additional remuneration.

The contracts executed with the Management Board members contain provisions prohibiting the members from engaging in, participating or taking an interest in any commercial or business activities without notifying the Supervisory Board (in the case of the President of the Management Board) or without the President of the Management Board's written consent (in the case of other Management Board members), as well as non-compete clauses effective during the contract term and for 2 (two) years from the day on which a given person ceases to be a member of the Management Board of KRUK S.A. The contracts with the Management Board members provided for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date, and will amount to 80% of the person's remuneration over the first 12 months, and 60% over the next 12 months.

Furthermore, the contracts concluded with the Management Board members impose contractual penalties in the amounts specified therein for violation of the non-compete provisions.

The tables below present the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2017) from the Company and its subsidiaries for 2016 and 2017.

Table 35. Remuneration of the Management Board members in 2017

Name and surname	Remuneration from the Company for 2017	Additional benefits* from the Company for 2017	Remuneration from the subsidiaries for 2017	Additional benefits* from the subsidiaries for 2017
Piotr Krupa	2,400	6.18	-	-
Agnieszka Kulon	768	6.18	1.89	-
Urszula Okarma	768	5.1	5.53	-
Iwona Słomska	768	5.1	-	-
Michał Zasępa	768	68.57	-	-

* Additional benefits include medical care, rent allowance, Christmas gifts, and company cars.
Source: Company

Table 36. Remuneration of the Management Board members in 2016

Name and surname	Remuneration from the Company in 2016	Additional benefits* from the Company in 2016	Remuneration from the subsidiaries in 2016	Additional benefits* from the subsidiaries in 2016
Piotr Krupa	1507	6.56	-	-
Agnieszka Kulton	807	6.34	11.69	-
Urszula Okarma	807	5.20	18.00	-
Iwona Stomska	724	5.33	-	-
Michał Zasępa	888	64.77	-	-

* Additional benefits include medical care, rent allowance, Christmas gifts, and company cars.
Source: Company

The total value of remuneration and additional benefits for 2017 paid by the Company and its subsidiaries to the Management Board members specified above amounted to PLN 5,472 thousand and PLN 91.13 thousand, respectively. In 2016, the respective amounts were PLN 4,821.2 thousand and PLN 29.7 thousand.

Additional benefits received from the Company for 2017 do not include bonuses and awards for the Management Board members for 2017. The bonuses will be paid in 2018, in the amount reflecting the degree of implementation of the Company’s financial plan and – in the case of the discretionary bonuses – in an amount determined by the Supervisory Board.

Moreover, as part of the 2015–2019 Scheme, members of the Management Board will be offered subscription warrants in the number specified in the Management Board’s Resolution of October 24th 2016 and Supervisory Board’s Resolution of October 27th 2016, subject to fulfilment

of certain conditions specified in the General Meeting’s Resolution No. 26/2014 of May 28th 2014.

In line with the 2015–2019 Scheme, the number of Subscription Warrants to be granted to Management Board members in each year of the Plan may not exceed 50% of the total number of Subscription Warrants offered for subscription by Eligible Persons as part of a given Tranche.

For detailed information on the incentive schemes operated by the Company, see the “Incentive Scheme” section.



5.3.2 Supervisory Board

5.3.2.1 Composition of the Supervisory Board, its changes and rules of appointment

The Supervisory Board shall consist of five or seven members. The number of Supervisory Board members is each time determined by the General Meeting. Members of the Supervisory Board are appointed for a joint term of office of three years. As at the date of authorisation of this report, the Company’s Supervisory Board is composed of seven members.








The Supervisory Board is appointed and removed by the General Meeting, with the proviso that if Mr Piotr Krupa holds shares in the Company representing 8% or more of the total vote at its General Meeting, he has the right to appoint and remove:

- one member of a five-member Supervisory Board, including the Deputy Chairman of the Supervisory Board;
- two members of a seven-member Supervisory Board, including the Deputy Chairman of the Supervisory Board.

Mr Piotr Krupa’s rights to appoint and remove members of the Supervisory Board are exercised by delivery to the Company of a written statement on the appointment or removal of a Supervisory Board member.

From January 1st 2017 to December 31st 2017, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. is presented below.

Table 37. Composition of the Supervisory Board of KRUK S.A. in 2017

Piotr Stępiak		Chairman of the Supervisory Board
Katarzyna Beuch		Member of the Supervisory Board
Tomasz Bieske		Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski		Member of the Supervisory Board
Krzysztof Kawalec		Member of the Supervisory Board
Robert Koński		Member of the Supervisory Board
Józef Wancer		Member of the Supervisory Board

Source: Company

By the date of authorisation of this report, there had been no changes in the composition of the Supervisory Board.

Table 38. Participation of women and men in the Supervisory Board of KRUK S.A. in 2017



Source: Company



5.3.2.2 Operation of the Supervisory Board

The Supervisory Board exercises supervision over each area of the Company's operations. Powers of the Supervisory Board, in addition to those defined in the Commercial Companies Code, include in particular:

- Assessing the financial statements and the Directors' Report on the Company's operations for the previous financial year in terms of their consistency with the accounting books, relevant documents and with the facts, and assessing the Management Board's recommendations concerning distribution of profit or coverage of loss;
- Submitting to the General Meeting an annual written report on the results of the assessment referred to above;
- Appointing and removing the President of the Management Board;
- Appointing and removing members of the Management Board (including Vice-Presidents);
- Suspending members of the Management Board and delegating members of the Supervisory Board to temporarily carry out the duties of Management Board members unable to perform their duties;
- Defining, at the request of the President of the Management Board, the rules and amount of remuneration for the Management Board members;
- Defining the amount of remuneration for the President of the Management Board;
- Approving the Company's annual financial plans (budgets) and strategic economic plans;
- Granting consent for the Company to contract loans or issue bonds, other than loans or bonds provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, with the exception of loans received from the other companies of the KRUK Group;
- Granting consent to provide security and surety over or encumber the Company's assets otherwise than as provided for in the budget, in excess of a cumulative amount equal to 10% of the Company's equity annually, unless parties to the transaction are only companies of the KRUK Group. Creating security or surety for loans and bonds provided for in the budget or for which the Supervisory Board has already given its consent does not require the Supervisory Board's consent;
- Granting consent for the Company to assume liabilities in a single transaction or a series of related transactions with a total value exceeding 5% of the Company's equity in a given financial year, not provided for in the budget and not arising in the ordinary course of the Company's business;
- Granting consent for the Company to acquire or subscribe for shares in other commercial companies and to join other businesses that are not members of the KRUK Group;
- Granting consent for the acquisition or disposal of the Company's assets with a value exceeding 15% of the Company's net book value as determined on the basis of the last audited financial statements, other than an acquisition or disposal provided for in the budget, except for any acquisition or disposal of assets from or to members of the KRUK Group;
- Granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks, unless only members of the KRUK Group are parties to the transaction;
- Granting consent to the Company or any of its subsidiaries to engage advisers and other third-party individuals as consultants, lawyers or agents if the resulting total annual cost to the Company, not provided for in the budget, would exceed PLN 500,000;
- Approving the rules of management stock option plans;
- Selecting an auditor to audit the Company's full-year financial statements, referred to in Art. 395 of the Commercial Companies Code, in accordance with the Polish and international accounting standards;
- Granting consent to the execution of or amendment to agreements concluded between the Company or any its subsidiaries with the Management or Supervisory Board members;
- Granting consent to making any gratuitous disposals or commitments by the Company or a subsidiary of the Company within the scope of the Company's business for an amount exceeding PLN 1m in one financial year, unless only members of the KRUK Group are parties to the transaction;
- Granting consent to making any gratuitous disposals or commitments by the Company or a subsidiary of the Company outside the scope of the Company's business for an amount exceeding PLN 200,000 in one financial year, unless only members of the KRUK Group are parties to the transaction;
- Granting consent to the purchase or disposal of property, perpetual usufruct rights or interests in property (excluding property purchased or sold as part of debt management processes) by the Company if the VAT-exclusive purchase price or the VAT-exclusive sale price is PLN 5,000,000 or more;

Supervisory Board meetings are convened by the Chairperson or, if absent, by the Deputy Chairperson of the Supervisory Board. Detailed rules for holding meetings are defined in the Rules of Procedure for the Supervisory Board.

Supervisory Board resolutions are passed with an absolute majority of votes of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairperson has the casting vote. For a resolution of the Supervisory Board to be valid, all members of the Supervisory Board must be invited to the meeting and at least half of them must be present at the meeting.

Supervisory Board members may vote on a resolution of the Supervisory Board in writing through another member of the Supervisory Board. Matters placed on the agenda during the meeting of the Supervisory Board may not be voted on in writing. Subject to the provisions of the Commercial Companies Code, the Supervisory Board may pass resolutions by voting in writing or using means of remote communication, provided that all Supervisory Board members have been notified of the contents of the draft resolutions.

5.3.2.3 Shares in the Company and in its related entities held by members of the Supervisory Board

For information on shares in the Company and in its related entities held by members of the Supervisory Board, see section 5.3.1.3 – Shares in the Company and in its related entities held by the Management and Supervisory Board members.

5.3.2.4 Remuneration, bonuses and employment contract terms of the Supervisory Board members

Pursuant to Art. 12.5 of the Company's Articles of Association, the Supervisory Board members receive remuneration for their services, unless the body or entities entitled to appoint them resolve otherwise. The amount of remuneration payable to the members of the Supervisory Board is determined by virtue of a resolution of the General Meeting.

Table 39 presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2017) from the Company and its subsidiaries for 2016 and 2017.

Table 39. Remuneration of the Supervisory Board members

Surname, first name	Remuneration from the Company for 2016 (PLN '000)	Remuneration from the Company for 2017 (PLN '000)
Beuch Katarzyna	93.5	98.91
Bieske Tomasz	93.5	98.91
Jastrzębski Arkadiusz	93.5	98.91
Kawalec Krzysztof	93.5	98.91
Koński Robert	93.5	98.91
Stępniański Piotr	186.1	197.83
Wancer Józef	139,0*	98.91

Source: Company

* For the period from January 1st 2016 to May 8th 2016, the remuneration payable in EUR (totalling 76,880). For the period from May 9th 2016 to December 31st 2016, remuneration paid in the Polish currency [PLN].

The total remuneration received from the Company by the Supervisory Board members named above for 2017 amounted to PLN 791.29 thousand.

In 2017, Arkadiusz Jastrzębski, a member of the Supervisory Board, received from the Company additional benefits totalling PLN 0.61 thousand. Krzysztof Kawalec, a member of the Supervisory Board, received from Kruk TFI S.A., a subsidiary, remuneration of PLN 24 thousand for his service on the Supervisory Board of Kruk TFI S.A.

As at the date of this report, there were no contingent or deferred benefits payable to members of the Supervisory Board by the Company or the subsidiaries.

As at the date of this report, there were no contracts executed by the Supervisory Board members with the Company or its subsidiaries that would provide for post-termination benefits.

5.3.2.5 Supervisory Board Committees

Pursuant to the Rules of Procedure for the Supervisory Board, the following committees operate within the KRUK S.A.

Supervisory Board:

- Audit Committee,
- Remuneration and Appointment Committee,
- Finance and Budget Committee.

Members of the committees are appointed by the Supervisory Board from among its members.

Komitet Audytu

The Supervisory Board appoints members of the Audit Committee from among its members. The Audit Committee consists of at least three members. The majority of the Audit Committee members, including its chairperson, should be independent members. The Audit Committee should include at least one member with knowledge and skills in accounting or auditing.

Members of the Audit Committee should have the knowledge of and skills relevant for the industry in which the Company operates.

All Members of the Audit Committee meet the criteria of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight. Ms Katarzyna Beuch, who chairs the Audit Committee, and Mr Arkadiusz Jastrzębski, Member of the Committee, also meet the independence criteria within the meaning of Best Practice for WSE Listed Companies 2016, as such criteria are specified in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. All members of the Audit Committee have knowledge and skills in accounting or auditing as well as the knowledge of and skills relevant for the industry in which the Company operates.

The Audit Committee's responsibilities include in particular:

- 1) monitoring of:
 - a) financial reporting processes;
 - b) effectiveness of internal control systems and risk management systems as well as of internal audit, including financial reporting;
 - c) performance of financial audit, in particular an audit conducted by the audit firm, taking into account all recommendations and findings of the Audit Oversight Commission resulting from audits carried out at the audit firm;
- 2) controlling and monitoring of the independence of the qualified auditor and the audit firm, in particular when the audit firm provides services other than the audit of financial statements;
- 3) informing the Supervisory Board or other supervisory or control body about the results of the audit and explaining how the audit has contributed to the integrity of financial reporting in a public-interest entity, and what was the role of the Audit Committee in the audit process;
- 4) assessing the independence of the qualified auditor and giving consent to the auditor's provision of permitted non-audit services to a public-interest entity;
- 5) developing a policy for selecting an audit firm to conduct the audit;
- 6) developing a policy for providing permitted non-audit services by the audit firm carrying out the audit, entities related to the audit firm or a member of the audit firm's network;
- 7) determining the procedure for selecting an audit firm by a public-interest entity;
- 8) presenting, to the Supervisory Board or other supervisory or control body, or to the authority referred to in Art. 66.4 of the Accounting Act of September 29th 1994, the recommendation referred to in Art. 16.2 of Regulation No. 537/2014, in accordance with the policies referred to in items 5 and 6 above;
- 9) submitting recommendations aimed at ensuring the integrity of the financial reporting process in a public-interest entity.

In the period January 1st–December 31st 2017, the Audit Committee consisted of:

- **Katarzyna Beuch** – Chairperson of the Audit Committee,
- **Arkadiusz Jastrzębski** – Member of the Audit Committee,
- **Piotr Stępnik** – Member of the Audit Committee.

By the date of issue of this report, the composition of the Audit Committee did not change.

Apart from statutory duties, in 2017 the Audit Committee dealt in particular with:

- summary of the results of the audit of the 2016 full-year report and rules of audit of the financial statements for 2017;
- Results of the review of the interim financial statements;
- Analysis and evaluation of the internal control and internal audit system operating in the Company;
- Analysis of the compliance procedures in place at the Company;
- Development of policies and procedures for the selection of the auditor and acquisition of non-audit services;
- Progress of preparations to reporting non-financial information;
- Currency risk management;
- Tax risk and discussion and analysis of changes in tax legislation.

Members of the Audit Committee performed their duties during the Committee's meetings and the Supervisory Board's meetings. The Audit Committee's meetings were also held in the form of teleconferences.

Remuneration and Appointment Committee

The Supervisory Board appoints members of the Remuneration and Appointment Committee from among its members. The Remuneration and Appointment Committee is composed of at least three members, including at least one member with knowledge and experience in the area of remuneration policy. The majority of the Remuneration and Appointment Committee members should be independent members of the Supervisory Board.

All Members of the Remuneration and Appointment Committee meet the criteria of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight. Three members of the Remuneration and Appointment Committee: Mr Arkadiusz Jastrzębski, Mr Robert Koński and Mr Józef Wancer, also meet the independence criteria within the meaning of Best Practice for WSE Listed Companies 2016, as such criteria are specified in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

The Remuneration and Appointment Committee's responsibilities include in particular:

- Planning of the remuneration policy for the Management Board members;
- Alignment of the Management Board members' remuneration with the Company's long-term interests and its financial performance;
- Recommendation of candidates to the Management Board to the Supervisory Board;
- Periodic assessment of the structure, number of members, composition and performance of the Management Board, and, where needed, recommendation of changes in this respect to the Supervisory Board, and submission of a periodic assessment of the skills, knowledge and experience of the individual Management Board members to the Supervisory Board.

In the period January 1st–December 31st 2017, the Remuneration and Appointment Committee consisted of:

- **Robert Koński** – Chairman of the Remuneration and Appointment Committee;
- **Piotr Stępnia**k – Member of the Remuneration and Appointment Committee;
- **Józef Wancer** – Member of the Remuneration and Appointment Committee;
- **Arkadiusz Jastrzębski** – Member of the Remuneration and Appointment Committee.

As at the issue date of this report, the composition of the Remuneration and Appointment Committee did not change.

In 2017, the tasks of the Committee included issuing opinions on changes to the list of persons eligible to participate in the Management Stock Option Plan for 2015–2019.

Matters within the remit of the Remuneration and Appointment Committee were discussed during the Committee's meetings, teleconferences and Supervisory Board meetings.

Finance and Budget Committee

The Supervisory Board appoints members of the Finance and Budget Committee from among its members. Pursuant to the Rules of Procedure for the Supervisory Board, the Finance and Budget Committee consists of two to four members.

In the period January 1st–December 31st 2017, the Finance and Budget Committee consisted of:

- **Tomasz Bieske** – Chairman of the Finance and Budget Committee,
- **Krzysztof Kawalec** – Member of the Finance and Budget Committee,
- **Piotr Stępnia**k – Member of the Finance and Budget Committee.

By the issue date of this report, the composition of the Finance and Budget Committee did not change.

The Finance and Budget Committee's responsibilities include in particular:

- Drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board on matters related to the Company's finances,
- Supporting the oversight of the performance of the Company's budget;
- On-going analysis of the Company's financial performance and condition,
- Matters related to the operation of the Company's cash, credit and tax systems, as well as its financial plans, budgets and property insurance contracts.

In 2017, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets, as well as

financial matters related to the Company's operations. Matters within the remit of the Finance and Budget Committee were discussed during the Committee's meetings and Supervisory Board's meetings. The Committee also held consultations in the form of teleconferences.

5.3.3 General Meeting

Rules governing the convening and the operation of the General Meeting as well as its powers are set out in the Commercial Companies Code and in the Company's Articles of Association.

The General Meeting may be held as an annual or extraordinary meeting. The Annual General Meeting is each time convened by the Company's Management Board within six months after the end of each financial year, and its agenda includes:

- Consideration and approval of the Directors' report on the Company's operations and financial statements for the previous financial year;
- Adopting a resolution on the distribution of profit or coverage of loss;
- Granting discharge to the members of the Company's governing bodies in respect of performance of their duties.

An Extraordinary General Meeting is convened by the Management Board on its own initiative or at the request of shareholders representing at least a half of the share capital or a half of total voting rights in the Company, by the Supervisory Board if it considers it appropriate, or by shareholders authorised by the registry court pursuant to Art. 400.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that certain matters be placed on its agenda. The request to convene an Extraordinary General Meeting should be submitted to the Management Board in writing or in electronic form. The Extraordinary General Meeting should be convened within two weeks of the Management Board's receipt of the request.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the next General Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the meeting. The request should contain a justification or a draft resolution regarding the item proposed to be placed on the agenda. The Management Board is obliged to announce immediately, in any case not later than eighteen days before the set date of the General Meeting, any changes to the agenda introduced at the request of shareholders.

A shareholder or shareholders representing at least one-twentieth of the share capital may, before the date of the General Meeting, submit to the Company, in writing or using electronic means of communication, draft resolutions regarding matters included or

intended to be included in the agenda of the General Meeting. The Company should immediately publish draft resolutions on its website. During the General Meeting each shareholder may submit draft resolutions regarding matters placed on the agenda.

The General Meeting is convened by posting the GM notice on the Company's website and in the manner specified for publishing current information in accordance with the Act of July 29th 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies. The notice should be published at least 26 days before the date of the General Meeting.

Each share confers the right to one vote at the General Meeting. The General Meeting is valid regardless of the number of shares represented at the Meeting, unless the provisions of the Commercial Companies Code provide otherwise.

Resolutions of the General Meeting are adopted by an absolute majority of votes unless applicable laws or the Articles of Association provide otherwise.

The powers and responsibilities of the General Meeting shall include:

- Consideration and approval of the Directors' report on the Company's operations and financial statements for the previous financial year;
- Distribution of profit or coverage of loss;
- Granting discharge to members of the Management and Supervisory Boards in respect of their duties;
- Decisions concerning claims for redress of damage caused upon formation of the Company or when managing or supervising the Company;
- Sale or lease of, or creation of limited property rights in, the Company's business or of its organised part;
- Amendments to the Company's Articles of Association;
- Increase or reduction of the share capital;
- Merger, transformation and demerger of the Company;
- Dissolving the Company and opening liquidation proceedings with respect to the Company;
- Adopting the Rules of Procedure for the General Meeting and for the Supervisory Board;
- Consideration and resolution of proposals put forward by the Supervisory Board;
- Other matters reserved for the General Meeting under the Articles of Association or applicable laws.

The validity of resolutions of the General Meeting regarding a significant change in the Company's business profile does not require that the shares held by shareholders who oppose such change be bought back if such resolutions are adopted by the majority of two thirds of votes in the presence of persons representing at least a half of the share capital.

5.4

Rules governing amendments to the Company's Articles of Association

The rules governing the introduction of amendments to the Company's Articles of Association are stipulated in the Commercial Companies Code. Pursuant to Art. 430 of the Code, any amendment to the Company's Articles of Association requires a relevant resolution by the General Meeting and must be entered in the relevant court register. In accordance with Art. 415 of the Commercial Companies Code, a resolution by the General Meeting concerning amendments to the Company's Articles of Association requires a majority of three quarters of votes.

The Company's Articles of Association do not include any provisions relating to their amendment which would stipulate in this respect any other rules than those defined in the Commercial Companies Code.

5.5

Key features of internal control...

...and risk management systems used in the process of preparation of financial statements and consolidated financial statements

The Group has in place an adequate and effective internal audit system in the form of an internal organisational unit, which ensures safe operations compliant with applicable laws, adopted strategy and internal procedures. The audit and security system focuses on periodical inspections of the mechanisms in place in order to detect risks and irregularities. Audit reports are provided to the Management Board of the Company.

To eliminate risks related to the preparation of financial statements, each year the Group has the financial statements, including subsidiaries' financial statements, audited by a qualified auditor, takes stock of assets, and monitors on an ongoing basis the performance of individual business areas against the targets and objectives assumed in financial plans.



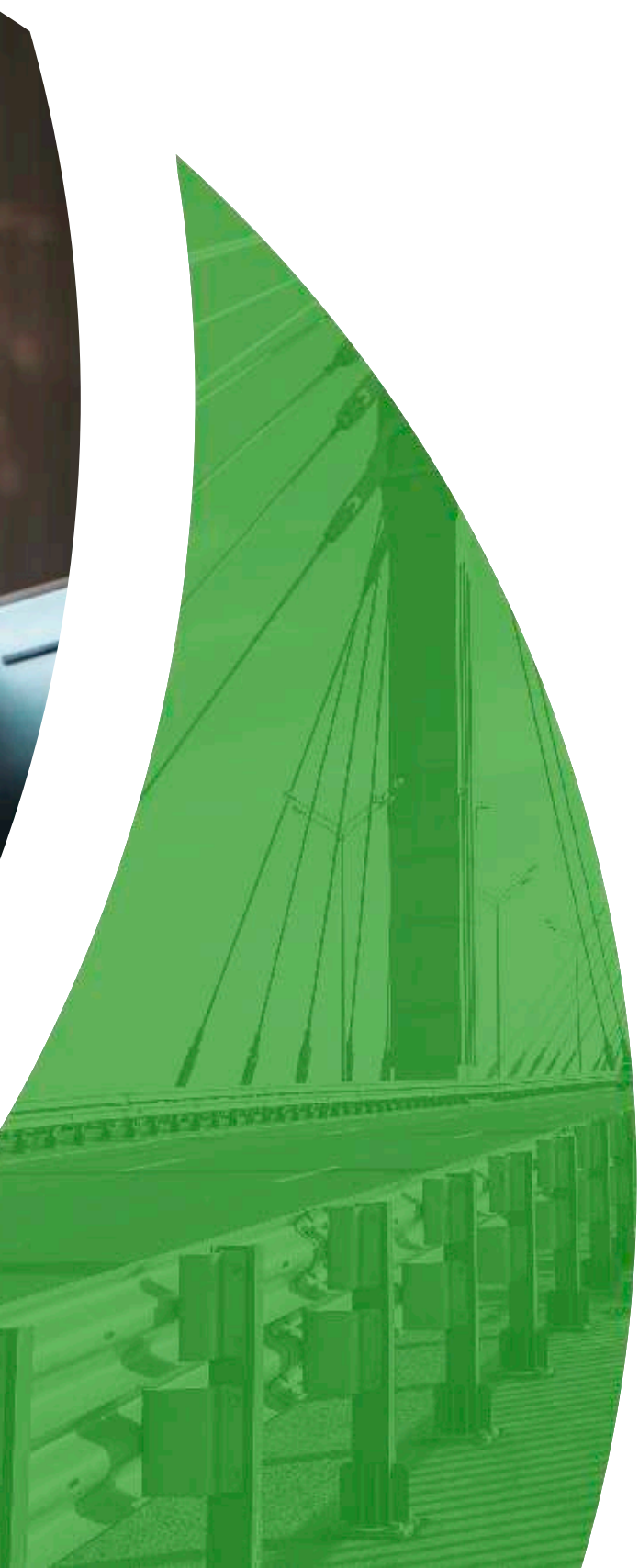
Non-financial information

Category: Economic

Category: Environmental

Category: Social

GRI index



Non-financial information in the form of a statement has been compiled in accordance with the GRI G4 Standards (GRI), in the core option, using selected additional indicators. [G4-32]

The information includes data on the KRUK Group for the period from January 1st 2017 to December 31st 2017, and is an integral part of the Directors' Report on the operations of the KRUK Group. [G4-28]

The statement is the first report on non-financial information published by the KRUK Group. [G4-22] [G4-23] [G4-29]

The Company will publish non-financial data on an annual basis. [G4-30]

Contact point for questions regarding the report or its contents: Agnieszka Salach, agnieszka.salach@kruksa.pl, phone: +48 71 790 21 70 [G4-31]

Organisation's values

The KRUK Group conducts its business in accordance with applicable laws, industry standards (including the Code of Best Practice of the Conference of Financial Enterprises in Poland), social standards, and internal instructions and procedures. Each Group employee, regardless of their form of employment, learns the organisation's ethical values and principles during induction training. They are also defined in the Company's internal documents which may be accessed by each employee. Those values are based on mutual respect, integrity,

responsibility and close cooperation. These are also the values pursued by Piotr Krupa, President of the KRUK Management Board. Each new hire learns those values so they can follow them in their daily work.

At the KRUK Group, these values are vitally important both in relationships between the employees, and between the company and its clients (debtors), trading partners and suppliers.

Those values are defined in the Company's mission itself:

Our client base comprises individuals facing the problem of excessive debt. We build positive relations and help our clients regain creditworthiness. We safeguard compliance with social and legal norms requiring that everyone must fulfil their obligations. The KRUK Group's values and organisational culture are of great importance to the organisation. To safeguard them, all Group companies have in place:

- The Internal Mediation Policy, which supports positive relations between employees, prevents conflicts and mobbing;
- The Gift Policy, which sets out the standards of conduct when offered gifts by trading partners.

Table 40. Key ethical values and principles in place at the KRUK Group

Client	Business partner	Shareholder	Employees
<ul style="list-style-type: none"> • We treat debtors with respect. • We help people escape the debt trap. • We ensure personal data protection. 	<ul style="list-style-type: none"> • We do not make promises we can't keep. • We approach our clients' needs on a case-by-case basis. • We respect our competitors. • We maintain the confidentiality of information. • We avoid conflicts of interest. • We follow transparency and integrity principles in our business. • We strive to build long-term and lasting relationships. 	<p>In communication with shareholders, the following are critical to us:</p> <ul style="list-style-type: none"> • Truth • Comprehensiveness • Continuity • Promptness • Understanding 	<ul style="list-style-type: none"> • We respect all our employees' opinions. • We take care to protect the Company's reputation. • We build good rapport within the Group. • We help each other. • We are tolerant. • We build relations on mutual respect and partnership. • We constantly improve our qualifications.

Source: Company

KRUK Group's organisational culture

In the second half of 2016, the KRUK Group, in partnership with PricewaterhouseCoopers, carried out an organisational culture study based on the dimensions of culture defined by Professor Geert Hofstede, a world expert in the field of social sciences. It was a comprehensive international study of organisational culture and the values observed in the KRUK Group. 1,541 employees of the KRUK Group, including 236 managerial staff, participated in the study. The results showed that the organisational culture of the entire Group is based on: partnership, collectivism, and femininity. This means that members of the KRUK Group team:

- build partnership-based relations regardless of their job title or position at the company, which creates room for open discussions, trust and cooperation;
- like cooperating and supporting one another: team's result is more important than individual success;
- value friendly working atmosphere, which is just as important as business objectives;
- quickly adapt to changes, and treat their job as a long-term occupation;
- respect and are open to other people's emotions and opinions, and foster good relations.

The KRUK Group's organisational culture manifests itself in the Group's mission, values, Internal Mediation Policy and the Diversity Charter signed by the Group. The Diversity Charter is an international initiative supported by the European Commission and implemented in 19 EU countries. The signatories undertake to eliminate discrimination and create and promote diversity at the workplace. The charter is also each signatory's declaration of readiness to involve all its staff as well as business and social partners in diversity-oriented initiatives. A decision to follow the principles of the Diversity Charter is an organisation's commitment to working towards social cohesion and equality.

The Group plans to carry out another organisational culture study in 2018.

[G4-15] [G4-16]

We comply with social norms and legal rules

The KRUK Group ensures compliance with the code of ethics and legal rules that regulate the activity of debt management companies. It also observes social standards based on honesty, responsibility and mutual respect. In addition, KRUK is actively involved in discussing and issuing opinions on legal issues and in amending the laws governing the development of the debt management market and business information exchange. The Group is a member of non-profit organisations that promote the industry's development. These organisations represent, among others, the interests of the financial market in relations with the lawmakers, public administration and public opinion. They are also involved in promoting financial education of the public.

The KRUK Group is a member of the following organisations:

- ACA International
- Asociácia Slovenských Inkasných Spoločností
- Asociace Inkasních Agentur
- Asociatia De Management Al Creantelor Comerciale
- Bundesverband Deutscher Inkasso-Unternehmen
- Bundesverband Credit Management
- Bundesvereinigung Kreditankauf Und Servicing
- Conference of Financial Companies in Poland
- Polish Association of Listed Companies
- PKPP Lewiatan (Polish Confederation of Polish Employers)

As a member of the Conference of Financial Companies in Poland, KRUK S.A. complies with the Code of Best Practice for the Businesses Associated in the Conference of Financial Companies in Poland. Additionally, each year we take part in an ethics audit conducted by the Ethics Committee of the Conference of Financial Companies in Poland, monitoring compliance with the Code of Best Practice at the Company. Following a successful audit, the Conference of Financial Companies grants an Ethics Audit Certificate for a given year, valid until March 31st of the next year.

At as the date of this report, KRUK S.A. holds a valid Ethical Audit Certificate for 2016, and awaits the results of the audit survey for 2017. The results will be notified to the Company by the end of the first quarter of 2018.

KRUK S.A., as a company listed on the Warsaw Stock Exchange, complies with the Code of Best Practice for WSE Listed Companies.

[G4-56]

Material aspects and indicators

During validation workshops attended by the Company's Management Board, the final number of material categories and aspects was defined. They are included in this Directors' Report on the operations of the KRUK Group in 2017. They are also the result of the KRUK Group's dialogue with its stakeholders.

[G4-33]



Therefore, the aspects defined by the Group as material include the following:

With regard to economic indicators:

- Economic performance
- Market presence
- Indirect economic impacts
- Procurement practices

With regard to environmental performance indicators:

- Materials
- Energy consumption
- Emissions

With regard to society performance indicators:

- Employment
- Occupational health and safety
- Training and education
- Diversity and equal opportunities
- Non-discrimination
- Grievance mechanisms for human rights
- Anti-corruption
- Compliance with regulations
- Product and service labelling
- Marketing communications
- Compliance with regulations concerning marketing communications

[G4-19] [G4-21] [G4-27]

Material stakeholders

Based on its business conducted so far, the KRUK Group has identified key stakeholder groups. Those groups, both in terms of pursuit of the Group’s business strategy and its corporate social responsibility, can affect each other. To prepare the ‘Statement on the KRUK Group’s non-financial information for 2017’, the Group has identified material economic, environmental, and social aspects. Meetings were held with internal stakeholders: employees, management staff, and the Company’s Management Board.

Following those meetings, key external stakeholders were identified, including:

- customers (mainly debtors),
- trading partners,
- shareholders,
- suppliers,
- competitors,
- social organisations,
- market regulators,
- the media.

[G4-24]

The KRUK Group reviewed the materiality of stakeholder groups, including based on:

- social surveys carried out by the Company at least once a year,
- customer satisfaction surveys carried out on an ongoing basis,
- trading partner satisfaction surveys carried out once a year.

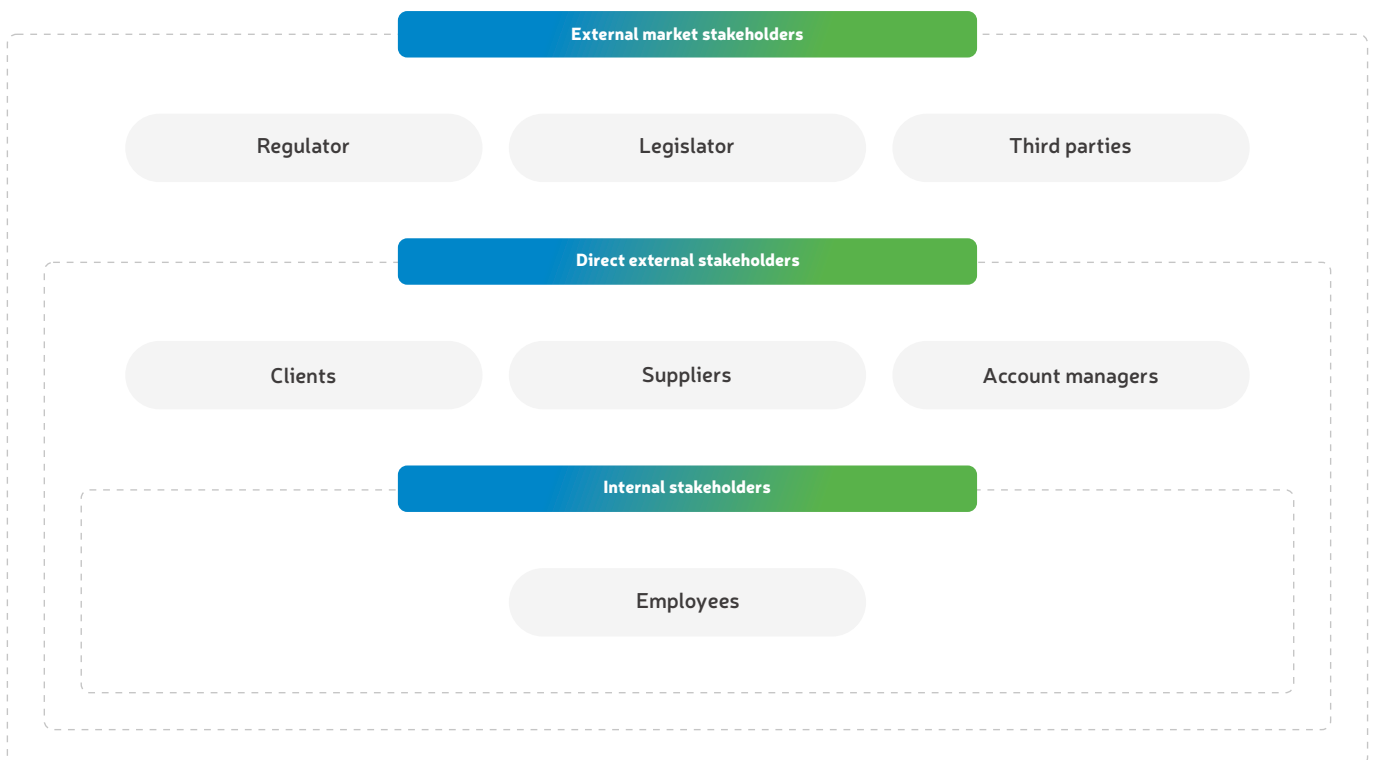


Table 41. Key stakeholders in the KRUK Group dialogue

Stakeholder	Form of dialogue	Frequency
Regulators and industry associations	Participation in issuing opinions on new regulations and acts of law (in working groups appointed when and as needed)	Ongoing
Competitor debt management companies	Participation in talks on how to improve the image of the entire debt management industry (in a working group created by the Conference of Financial Companies in Poland). Participation in industry conferences.	Ongoing
Non-profit organisations	Participation in financial education events and charity projects.	As needed
General public	Social research on issues related to financial education, budget planning, financial behaviour, and attitudes to debt	At least once a year
	Workshops and training	As needed
	Press materials, radio and TV advertising campaigns	As planned in communication strategy
Trading partners	Trading partner satisfaction survey	Once a year
Clients – debtors	Client satisfaction survey	Ongoing
	e-kruk.pl platform	Ongoing
	Face-to-face and telephone conversations with KRUK Group consultants	Ongoing
Suppliers	Face-to-face meetings, phone calls, e-mails	As needed
Employees	Employee Suggestion Scheme for employees to propose their ideas, e.g. for making improvements in the workplace.	Ongoing
	Employee Forum	Four meetings in calendar year
	Employee surveys, including surveys of satisfaction with participation in an annual integration event for employees of the KRUK Group.	As needed
	Internal communication, including in-house competitions, invitation to various employee actions and charity projects.	As needed
	Whistleblowing	As needed
	Whistleblowing to the Consultation and Mediation Team	As needed
	In-house events for employees, including the annual integration event.	At least once a year
	Employee Assessment System	Twice a year
	Programme to support employees in difficult life situations, with full confidentiality guaranteed	When and as needed by employee
	Direct meetings with management staff	As needed

Source: Company

[G4-18] [G4-20]

In 2017, the Group identified and selected groups of external stakeholders and social aspects, based on:

- The Financial Behaviour of Europeans survey, carried out using the CATI technique in September 2016 in seven countries where the KRUK Group operated, with 7,000 randomly selected participants;
- A satisfaction survey of the KRUK Group's trading partners, carried out from April 4th to July 11th 2017, using questionnaires and in-depth interviews, on 36 persons from 28 companies working with the KRUK Group.
- A satisfaction survey carried out in 2017 among the KRUK Group's clients, using telephone questionnaires with closed and open-ended questions (approximately 20,000 participants).

[G4-25] [G4-26] [G4-27]

6.1

Category: Economic

The KRUK Group is the leader of the debt management market in Central Europe. In its vision, the Group aspires to be the innovation leader and one of the world's largest companies working with individuals facing the problem of excessive debt. Step by step, by setting trends on the market and developing in foreign countries, KRUK strives to achieve these objectives. In everyday work, the Company's focal point are its clients. With them in mind, KRUK has developed its amicable collection strategy, now being emulated by other collection companies.

The amicable collection strategy enables the Group's clients to spread the debt repayment into instalments in line with their individual needs, allowing them to restore their financial credibility and return to the financial market. This is why the Group places particular importance on regular examination of the needs, expectations and satisfaction of its customers and business partners. Apart from assistance in debt repayment, the Group offers its customers cash loans and services of ERIF Biuro Informacji Gospodarczej, a credit reference agency.

6.1.1 Economic performance

2017

Revenue (+)	1,061
Operating expenses (-)	384
Salaries, wages and employee benefits (-)	265
Payments to providers of capital (-)	109
Payments to government (-)	207
Community investments (-)	7
Economic value retained	78

Source: the Company.

6.1.2 Market presence

The KRUK Group makes every effort to provide its employees with comfortable working conditions and satisfying remuneration. The remuneration policy is part of the HR and payroll policy and applies to all employees regardless of their gender, age, nationality or other differences.

Salaries of men and women in the same positions are on a par. Differences, if any, may result from a different scope of work performed. The share of men is higher in better-paid IT departments, and lower in administrative departments or call centres, where the majority of employees are women.

Table 42. Ratio of standard entry level salary by gender compared to minimum pay

	Average salary compared with the minimum pay
women	236%
men	272%

Source: the Company

[G4-EC5]

The KRUK Group activities cover different markets. It is currently present in nine European countries and has operations in seven. Most of the KRUK Group companies' employees are local citizens. However, in order to ensure that all companies across the Group apply the same operating principles and values, the staff in the foreign branches includes expats from Poland. Some employees, who often have extensive experience and knowledge gained while working for the KRUK Group, have decided to work for Group companies operating abroad. Now they share their know-how with their new colleagues.

[G4-EC6]

6.1.3 Indirect economic impacts

Why is financial education so important?

The social commitment of the KRUK Group is based on various initiatives that were born from the needs of the company’s employees and external stakeholders (chiefly the residents of countries in which the Group operates).

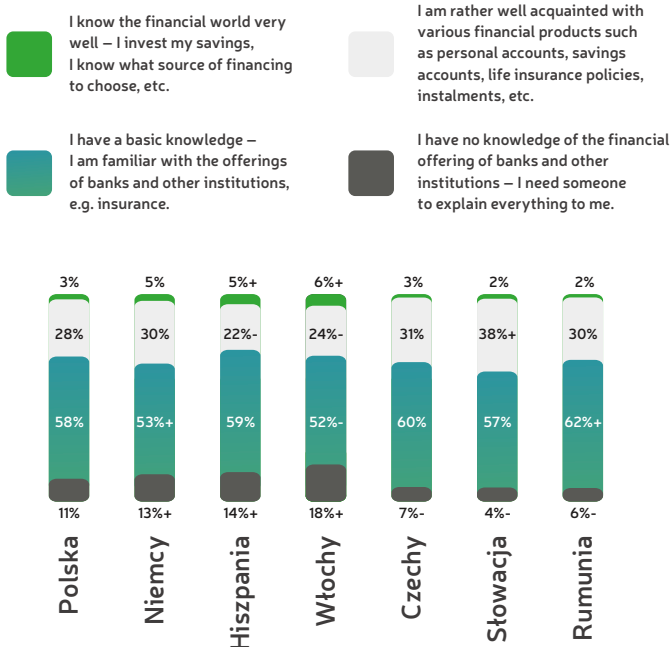
One of the main social needs identified by the Group is financial education. Many years of social research carried out by the KRUK Group have shown that both the level of financial literacy and financial education leave much to be desired. In response to this gap, the Group implements various educational initiatives.

Surveys conducted by the Group in the last three years have confirmed the validity of its CSR strategy.

As revealed by, among others, the social survey “Financial Behaviour of Europeans” conducted by Millward Brown for the KRUK Group in 2016, in each of the seven markets where the KRUK Group operates, more than a half of the society believe their financial knowledge is only elementary.

Financial literacy

Q2. How do you feel about your financial knowledge?



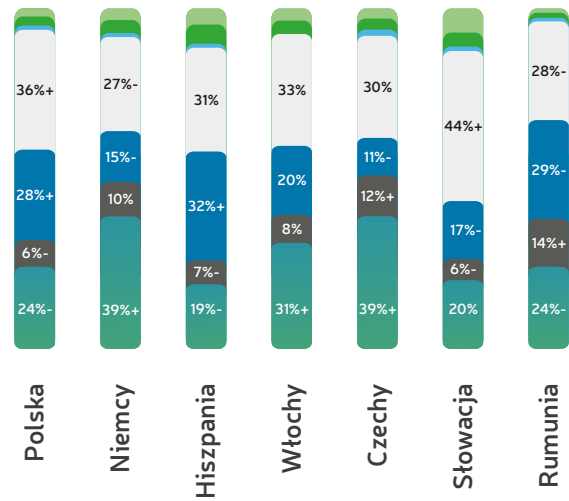
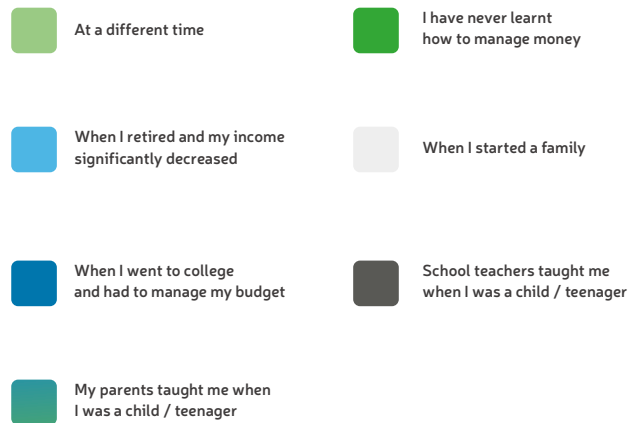
Poziom wiedzy na temat finansów wśród Polaków jest na poziomie średniej z wszystkich badanych krajów

Source: The “Financial Behaviour of Europeans” survey was carried out in Poland, Romania, the Czech Republic, Slovakia, Germany, Italy and Spain using the CAWI method on a sample of 1,000 people randomly selected in each country in the second half of November 2016.

In accordance with the study, it can be concluded that in many European countries people seek financial knowledge when they begin to live on their own – on starting university education, or a family. Therefore, only a small percentage of people know how to manage their money and how to invest their savings.

Financial Education (data)

Q3. Na którym etapie życie przede wszystkim nauczył(a) się Pan(i) zarządzać własnymi finansami?



Poles learn about finances from their families less frequently than other nations. For them, the key moments are marked by undertaking higher education and the need to manage personal finance, and starting a family.

Financial Education (data)

**Question asked to the participants of the research “Financial Attitudes of Europeans”:
At what stage of your life did you learn how to manage your personal finance?**

My parents taught me when I was a child / teenager	24%	39%	19%	31%	39%	20%	24%
School teachers taught me when I was a child / teenager	6%	10%	7%	8%	12%	6%	14%
When I went to college and had to manage my budget	28%	15%	32%	20%	11%	17%	29%
When I started a family	36%	27%	31%	33%	30%	44%	28%
When I retired and my income significantly decreased	1%	1%	1%	0%	1%	1%	1%
I have never learnt how to manage money	3%	3%	6%	3%	3%	4%	2%
At a different time	4%	7%	5%	4%	4%	8%	3%

Source: The “Financial Behaviour of Europeans” survey was carried out in Poland, Romania, the Czech Republic, Slovakia, Germany, Italy and Spain using the CAWI method on a sample of 1,000 people randomly selected in each country in the second half of November 2016.

That is why the KRUK Group attaches so much importance to financial education in its CSR initiatives. Such initiatives are targeted at many social groups, including debtors, young people, trading partners, as well as institutions working directly with people struggling with financial problems.

Lack of household budget planning and control over ongoing expenditure can result in debts. In addition, there are fortuitous events that can not be predicted, such as falling ill, unexpected job loss, divorce, death of a close person. Such situations can also adversely affect the financial situation.


As shown in the study “Expenses of Poles”** carried out by Millward Brown for the KRUK Group, every fifth indebted Pole would take out a loan. Such answer was given both by respondents who have never had problems paying their bills, loan instalments and other financial obligations in time, and those that already have debts. This approach can lead to falling into a debt trap. It shows that there is still a lot to be done in terms of financial education.

According to another survey, the “Portrait of Indebted Poles” carried out by the Maison research house for the KRUK Group, the propensity to fall into debt may be determined by personality and lifestyle. The survey helped to define the types of people in debt.

** The “Expenses of Poles” survey carried out by Millward Brown for KRUK S.A. using the CAPIBUS methodology, April 14th 2015.

Who may have debt issues?

The tendency to fall into debt may follow from our personality and lifestyle. We may run into financial problems if we*:




TEND TO BE FORGETFUL

forget to make payments when due

- Average age: 45 years
- Average amount due: PLN 11,000

27%




INCUR DEBT FOR OTHERS

we take out loans to pay for something that, for example, a family member needs

- Average age: 43 years
- Average amount due: PLN 36,000

24%




ARE TOO CAREFREE

our incomes are high and we spend lavishly

- Average age: 42 years
- Average amount due: PLN 15,000

19%




FEEL LOST

we disregard our fixed costs and obligations and we take on new debt, risking getting into a debt trap

- Average age: 47 years
- Average amount due: PLN 17,000

18%



AVOID DEALING WITH PROBLEMS

we prefer not to think about our financial future – we do not give much thought to how we spend money

- Average age: 36 years
- Average amount due: PLN 19,000

12%

Source: The “Portrait of Indebted Poles” survey carried out by the Maison research house for KRUK S.A., using CATI technique, in September 2015.

The public surveys set the directions to follow in the area of corporate social responsibility.

Day without Debts

In 2008, the KRUK Group started an initiative named “Day without Debts” in Poland. Its aim was to make Poles understand how important it is to have control over the finances, plan them responsibly, and pay off debt. In November 2017, the event was held for the ninth time in Poland, for the seventh time in Romania, for the sixth time in the Czech Republic, and for the fifth time in Slovakia.

The ‘Day without Debts’ is accompanied by a number of educational and marketing activities. They are to draw public attention not only to the problem of indebtedness, but also to such matters as financial behaviour, household budget planning and the real impact on other market participants.

For a detailed description of activities performed as part of the ‘Day without Debts’ in 2017, see Section ...

Workshops for debtors and more

The “Small Step, Giant Chance” workshop, organised for the first time in 2016, was another CSR project of the KRUK Group. In 2017 it had its second edition. The workshops were held together with municipal social welfare centres in Gdańsk, Piła, Poznań, Wałbrzych, Częstochowa, Kraków, Łódź, and Wrocław. The centres were selected based on their location (proximity of the Company’s branches), openness to cooperation, and the amount of debt owed by people living in a given region.

Following the evaluation surveys carried out after the workshops in 2016 and at the request of the social welfare centres, in 2017 the KRUK Group prepared a special training session for the staff of Municipal Social Welfare Centres and Municipal Family Welfare Centres. The training was conducted by psychologists from the Debtor Support Association, which had been closely working with the KRUK Group for years.

In 2017, a total of 241 employees of the centres and people struggling with debt took part in the workshops. Most of the participants were social welfare staff who wanted to broaden their understanding of debtor types and their patterns of behaviour to be able to better fulfil their duties.

The evaluation survey which was carried out among the participants in 2017 showed that there still was considerable interest in learning about how to get out of debt. Bearing in mind that many beneficiaries of the centres are or may become the KRUK Group’s debtors, the Company plans to continue the project also in 2018.

Both initiatives, i.e. “Day without Debts” and “Small Step, Giant Chance”, were included in the “Responsible Business in Poland. Best Practice 2016” report, prepared on the initiative of the Responsible

Business Forum to promote CSR activities of Polish companies. The projects were included in the Consumer Issues category as its principal focus is to educate consumers and raise their awareness of their rights and obligations. The report lists the infoKonsument.pl platform of the KRUK Group’s ERIF Biuro Informacji Gospodarczej among the most significant educational initiatives in business.

Conferences and market events

In 2017, the KRUK Group continued to actively participate in industry conferences, seeing such events as opportunities to develop Poland’s debt management and business information exchange markets. In this way, the Group can set new trends in the market and tailor its services not only to the needs of retail customers, but also its trading partners and the changing market landscape.

Like every year, the Group held plenty of its own events to promote dialogue with trading partners and the entire market.

The Group also participated in industry conferences in Poland and abroad, both as a partner or a participant. Through such activities, the Group can regularly share its experience as well as set new trends and directions for the growth of the debt management market and – in the case of ERIF BIG S.A. – of the business information exchange market.

The most important conferences attended by the KRUK Group in 2017:

- **Poland**

In the spring of 2017, the KRUK Group organised conferences for the insurance sector and bailiffs. ERIF BIG S.A. was the organiser of the Fifth ERIF Forum, whose central theme was the challenges and opportunities of the amendments to the law governing the activity of credit reference agencies in Poland. In addition, the Group again organised a conference for the banking sector to exchange views on observed changes and developments. In 2017, the KRUK was also a partner of various conferences and events important for the development of the market. ERIF BIG S.A. was the official partner of the Loan Magazine Awards Gala 2016, which took place in January 2017. KRUK S.A., as a partner, took part in the second edition of the 590 Congress, which was considered one of the most important economic events in Poland in 2017. The 590 Congress was attended by numerous prominent figures from the world of politics and business, and among the four thousand participants there were representatives of public and local government bodies, public opinion leaders, entrepreneurs and scientists. The matters discussed at the Congress related to the future of the Polish economy. ERIF BIG S.A. became the general partner of the Congress of Polish Self-Government Treasurers during the 15th Self-Government Capital and Finance Forum. Also in 2017, this company again participated in the Consumer Finance Congress.

- **Czech Republic**

In June 2017, the KRUK Group organised yet another industry conference for trading partners from the Czech Republic and Slovakia. It was an opportunity to exchange experience and establish long-term relationships.

- **Romania**

In May 2017, the KRUK Group acted as the partner of the “Debt and Restructuring” conference held in Bucharest. In October 2017, the Group organised the “Creditors’ Challenges” Conference for its trade partners.

- **Spain**

In October 2017, the KRUK Group participated as a Gold Partner in one of the most important financial conferences on the Spanish market – the Congress of Credit. It was an opportunity to present the KRUK Group’s strategy in debt management, which is an innovative approach to debt collection on this new market.

- **Italy**

In November 2017, the KRUK Group was a partner of the Credit Village Day Conference in Milan. The participants included representatives of the financial sector, consumer associations and journalists.

Charitable sponsorship

In 2017, the KRUK Group continued its charitable sponsorship initiatives based on its “Charitable Sponsorship Policy”. According to this document, the Group carries out charitable activities that substantially and financially support non-profit organisations, but also the KRUK Group’s clients, employees and their relatives. Our message is that we want to help in a selfless and charitable way.

The KRUK Group supports activities that follow the motto “Not only your finances in good condition” complementing the message “Your finances in good condition”. According to this motto, it is not only financial matters that are material: health, well-being and physical fitness are equally important. If these aspects of life are taken care of, it is easier to face various difficulties, even such as getting out of debt. That is why the KRUK Group, focusing on educational activities and those improving financial literacy, also promotes a pro-active and healthy lifestyle. The Group pursues this objective in all markets where it is present.

In 2017, for the fifth time, the KRUK Group was the main sponsor of the charitable “Business Run”. The proceeds from this event were donated for the treatment of Krzyś and Dorian, two beneficiaries of the Everest Foundation, the organiser of the Run.

Apart from the charitable assistance, the idea behind the Business Run is to promote healthy rivalry, team cooperation and physical activity among employees of, inter alia, Lower Silesian companies: both small enterprises and international corporations. As part of the sponsorship package, the KRUK Group paid for starter kits for 150 of its employees.

It was also an opportunity to build good relations between the employees. A total of 6,000 people took part in the Run, including employees of Wrocław-based companies.

The KRUK Group in 2017 once again sponsored the eighth charitable “Concert of Hope”, an initiative of the Wrocław-based foundation “To the Rescue of Kids with Cancer”, which engages companies based in the Wrocław Province to help sick children. The concert is divided into two parts. The first one features performances by musically talented employees of companies which support and are partners to the Foundation. The second part is a concert given by well-known and popular musicians. During the eighth edition of the initiative, the KRUK Group was represented by Anna Wojtas.

All proceeds from the concert (over PLN 1m) were used to finance the treatment of children with cancer and equipment for the “Cape of Hope” oncology hospital.

The Group also actively supported smaller charity campaigns, organised by local communities. In 2017, KRUK was a partner of several local events in the countries in which it operates, including:

- partnership at the Charity Film Music Gala organised by the Wrocław hospice on the occasion of the World Hospice and Palliative Care Day;
- participation as a general partner in the “Pohárek” swimming competition organised for disabled children in the Czech Republic;
- ensuring financial support for the activities of a local girls basketball team in Romania;
- engagement in educational “Mother&Child” activities organised by a local Italian community (the organisation supports single mothers in need of financial aid and helps them return to a normal life);
- twice a year, KRUK Group employees actively participate in blood donation campaigns organised in cooperation with the Regional Centres for Blood Donation and Haemotherapy. In 2017, over 40 litres of blood were donated.

In accordance with its sponsorship policy, the KRUK Group is also engaged in employee sponsorship: it supports the Group employees practicing amateur sports. This support includes co-financing of starter kits, purchase of professional sports equipment or sports clothing. In return, employees represent the KRUK Group during the competition.

In 2018, the Group plans to continue its charitable efforts, engaging in this way in social support initiatives. Thus the Group not only builds a positive image of its organisation, but also ensures actual support for and involvement of the KRUK team members in community events.

6.1.4 Procurement practices

As part of its operations, the KRUK Group cooperates with numerous local suppliers. They supply various goods and services necessary for the Group's proper operation in many areas, including IT hardware, office equipment and supplies, as well as marketing and PR services.

Most purchases are made by KRUK S.A., and then re-invoiced to foreign companies. This approach enables the Group to negotiate more favourable prices and conditions.

[G4-12]

Number of procurement processes carried out at the KRUK Group

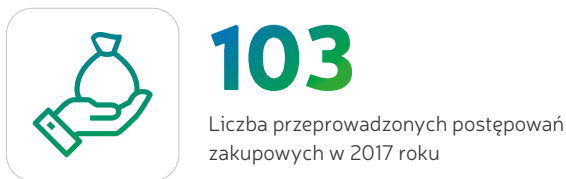
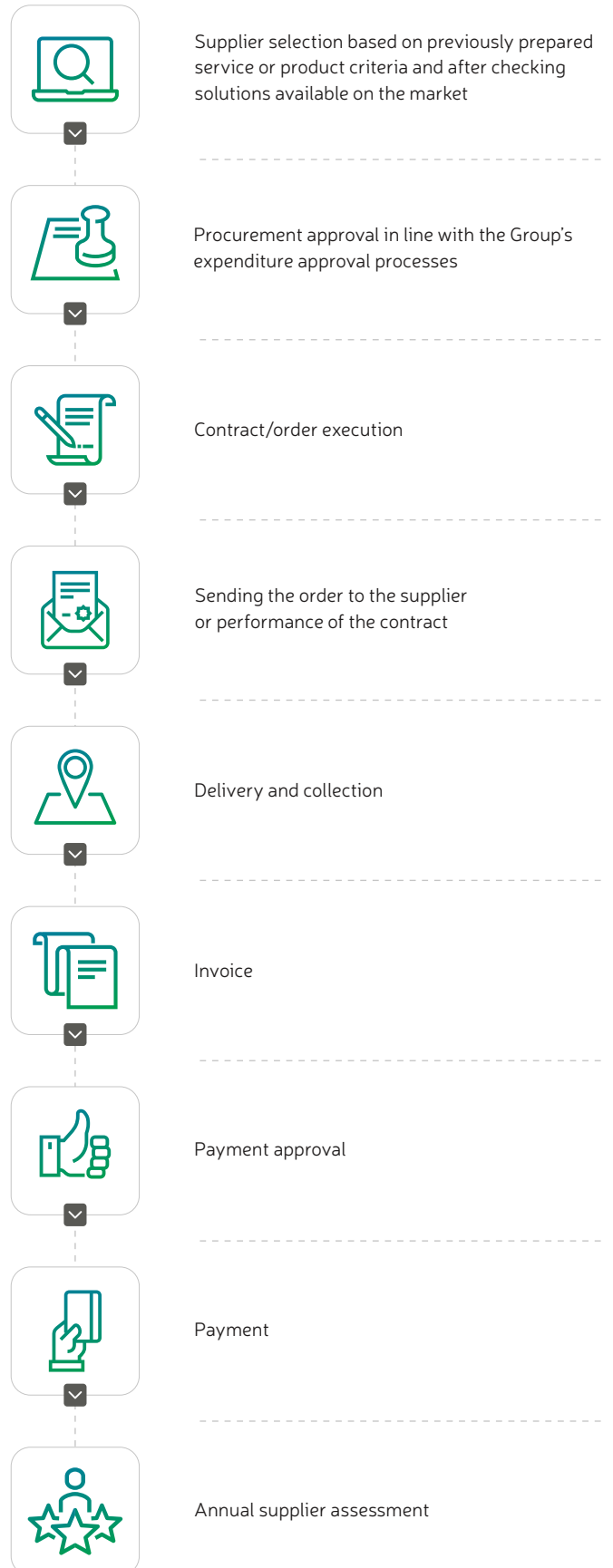


Table 43. Number of KRUK Group's suppliers in 2017, by country and percentage share of foreign suppliers in a given country

Country	Number of suppliers	Percentage share of foreign suppliers in a given local market or country
Poland	1071	1%
Romania	807	4%
Czech Republic	584	21%
Slovakia	32	9%
Spain	374	34%

Source: Company.

The KRUK Group cooperates with external suppliers of services and goods based on the following scheme:



Work on updating the Procurement Policy and Procurement Procedure was completed at the KRUK Group in late 2017. The objective of the KRUK Group's Procurement Policy is rational and effective procurement planning ensuring good value for money with respect to purchased materials and services. The procurement process which will be implemented in 2018 will comprise the following new elements:

- supplier surveys, on the basis of which the Group will be able to assess its trading partners in terms of compliance with environmental, social and economic ethics,
- financial and technical assessment of suppliers.

The KRUK Group selects suppliers by way of tenders or based on competitive bids.

Procurement processes are carried out in compliance with the rules of fair competition, which means that the principles of impartiality, ethical approach to selecting the best bid, avoiding conflicts of interest and preventing all forms of corruption and bribery apply.

Integrity and mutual respect play an important role also in cooperation with suppliers. To ensure clarity and transparency, the KRUK Group has in place a Misconduct Prevention Policy, Conflict of Interests Management Policy, and a Gift Policy.

[G4-EC9]

6.2

Category: Environmental

The KRUK Group's business does not have a direct impact on the natural environment as it consists in provision of services. However, the Group has identified areas which may have a negative environmental impact, including primarily consumption of energy and paper and exhaust gases produced by company cars.

The KRUK Group contacts its clients mainly by letter, which is why it consumes large quantities of paper. However, the Group makes every effort to reduce paper consumption, having regard to customers' needs and technological advancement. Therefore, all KRUK Group companies have provided their employees with an instruction on the use of e-documents, which allows them to exchange documents in electronic form.

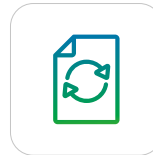
Additionally, for the purposes of communication with clients (debtors), the e-KRUK online platform was launched in 2017. Using the platform helps reduce the number of letters sent via traditional mail.

6.2.1 Raw material and consumables used



224,74 tonnes

Consumption of paper in 2017



221,76 tonnes

Disposal of paper in 2017

[G4-EN1]

6.2.2 Energy consumption

Table 44. Total consumption of electricity

Total consumption of electricity [MWh]	4805,38

Total consumption of energy from non-renewable sources [MWh]	279266,37
including gasoline [MWh]	1431,20
including diesel oil [MWh]	10861,54
including natural gas [MWh]	266973,64

Gasoline [m ³]	154,20

Diesel oil [m ³]	1111,03

Natural gas [m ³]	28334,56

Source: Company

[G4-EN3]

In 2017, KRUK Group employees used 477 company cars, which is also presented in the table below – carbon dioxide emissions.

6.2.3 Emissions

Table 45. Total CO₂ emissions

3995,67 tCO ₂ e	CO ₂ emissions from electricity purchased for the building's needs [tonnes]
57185,07 tCO ₂ e	CO ₂ emissions related to transport and fuel combustion in the engines of company vehicles [tonnes]
61180,75 tCO ₂ e	Total CO ₂ emissions at the organisation

Source: Company

[G4-EN15] [G4-EN16]



6.3

Category: Social

6.3.1 Employment

Total number and rate of new hires during the reporting period by age group, gender and region

gender	new hires in age group ≤ 30	employment rate in age group ≤ 30	new hires in age group ≥ 50	employment rate in age group ≤ 50	new hires in age group 30-50	employment rate in age group 30-50	TOTAL
Women	271	0,10	18	0,01	301	0,11	590
Men	171	0,06	32	0,01	233	0,09	436
TOTAL	442	0,16	50	0,02	534	0,2	1026

Total number and rate of employee turnover during the reporting period by age group, gender and region

gender	Number of departures in age group ≤ 30	Employee turnover in age group ≤ 30	Number of departures in age group ≥ 50	Employee turnover in age group ≤ 50	Number of departures in age group 30-50	Employee turnover in age group 30-50	TOTAL
Women	163	0,06	29	0,01	209	0,08	401
Men	140	0,05	35	0,01	149	0,06	324
TOTAL	303	0,11	64	0,02	358	0,13	725

Source: Company

[G4-LA1]

The KRUK Group is committed to fostering the professional development of its employees and cares about their health and safety. It also seeks to ensure friendly working conditions.

To meet the needs of its employees, the Group offers them:

- the possibility to use the Company Social Benefits Fund, including in the form of material assistance, non-repayable allowance for persons in particularly difficult life situations, or a holiday allowance;
- co-financing of foreign language courses (as specified in in-house regulations);
- attractive terms of using the Multisport card to take part in sport and recreational activities;
- co-financing of the cost of glasses;
- participation in internal and external training financed by the Group to enhance staff competencies and professional qualifications;
- medical care for themselves and their families;
- group life insurance;
- access to a library of books for employees, with new books added to the collection every year;
- co-financing of integration events;
- on the Children’s Day in 2017, employees received gifts (pre-paid gift cards) for their children.
- in 2017, at the request of employees of the KRUK Group, the rules on flexible working hours were modified and work from home was permitted. As of April 1st 2017, employees can:
 - work flexible hours, starting between 6 am and 11 am and ending after having worked the number of hours specified in their employment contracts;
 - work out of office occasionally, in accordance with internally agreed rules and conditions.

[G4-LA2]

The KRUK Group cares about working parents and offers tools that help maintain work-life balance. It respects the rights of parents. In the Group’s headquarters, there is a room for nursing mothers, and fathers are given paternity leave on request.

In 2016 and 2017, the Group did not collect data on return to work and retention rates after parental leave. The data will be presented by the Group in the next reporting period.

[G4-LA3]

6.3.2 Occupational Health and Safety

WIn the KRUK Group, we pay special attention to occupational health and safety. In 2017, the Group organised a Health Day for its employees. Most of the Group’s employees work in a sedentary position, which puts a strain on the spine, eyes or wrists. Therefore, such events provide the opportunity to discuss important health-related matters. The Group also analyses incidents and threats to the safety of individual employee groups on an on-going basis. One risk faced by KRUK field consultants, who visit clients at their homes, is being attacked by pets (mainly dogs). That is why in 2017 the Group prepared an instructional video on how to cope with such situations.

In 2017, the KRUK Group and the Rescue Centre in Wrocław organised two-day first aid workshops for interested employees. These workshops are always very popular. First aid training is especially important when choosing employees who are to give first aid or coordinate evacuation of employees.

As a standard, each employee undergoes OHS training as required by applicable laws and regulations.

Types of accidents and injuries reported by the KRUK Group in 2017

fall from heights	1
road traffic accident	1
fall on a flat surface	3
injury while getting out of the car	1
dog bite	2

Injuries of cervical spine, ankle sprain, shoulder sprain, muscle tear, laceration from a dog bite.

Total number of accidents, of which:	8
men	7
women	1

Accident rates (all accidents at work in 2017):

severity rate:

men	56,14
women	38

frequency rate:

men	4,2
women	0,6

Occupational disease rate: 0

Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):

men	393
women	38

Number of fatal accidents: 0

Source: Company.

The number of reported accidents in the KRUK Group decreased in 2017 relative to 2016.

The KRUK Group’s system for reporting and recording accident statistics covers all locations where the Group operates. Accidents at work are reported to the Group’s OHS officer and to the immediate supervisor of the employee concerned. Accident documentation is prepared within 14 days from reporting the accident, and all accidents are entered in the accident register and reported to the Statistical Office.

[G4-LA6]

6.3.3 Workers with high incidence or high risk of diseases related to their occupation

In 2016–2017, employees of the KRUK Group did not report any occupational diseases. In addition, there were no reports of serious or fatal accidents at work.

[G4-LA7]

6.3.4 Development and education of employees

The development of each member of the KRUK Group team fosters the growth of the entire organisation. Constant improvement of competences and qualifications of the Group’s employees is therefore an important investment in building an innovative and passionate team. The employees of the Group can benefit from many internal training courses prepared and implemented by the Training Process and Product Development Team. The courses differ depending on the length of service and the needs related to the duties of a given person.

Table 46. Average hours of training per employee by gender*

Gender	Percentage of persons participating in training in 2017	Number of training hours per person
Women	61%	20.6 h/person
Men	39%	21.5 h/person

Source: Company
* The average number of e-learning training hours per employee is not included.

[G4-LA9] [G4-LA10] [G4-LA11]

The employees of the Group can participate in specialist and managerial training, and each newly recruited person completes a full cycle of induction training where they learn, among other things, the Group’s values and ethical principles.

The Group also has a management skills development programme, which supports the development of skills of the management staff.

In mid-2016, the Group implemented an e-learning training platform that facilitates imparting the necessary knowledge to employees in a short time. It hosts mainly courses in the field of law, data security and protection, ethical principles and good practices in the industry, as well as product training, and courses related to projects implemented in the organisation. The e-learning platform also hosts courses for the management staff, which are combined with traditional training.

One of the e-learning courses concerns employee reviews, which is related to the Group’s culture of providing feedback to fellow employees. Such reviews are carried out twice a year and allow employees to share their views about the work of others. They also enable determining the further development path of any given employee.

Table 47. Percentage of employees receiving regular performance and career development reviews, by gender and by employee category

	Percentage of employees receiving regular performance reviews	Women	Men
KRUK Group	99,05 %	61 %	39 %
Managerial staff	12%	57%	43%
Other employees	88%	62%	38%
KRUK S.A.	99,6 %	59 %	41 %
Managerial staff	12%	58%	42%
Other employees	88%	60%	40%

Source: Company

[G4-LA11]

6.3.5 Human rights

In 2017, the KRUK Group devoted 89 hours to train its employees in procedures and regulations that promote respect for human rights. These were mainly induction training courses about the KRUK Group values. In 2017, each newly hired person received this training.

[G4-HR2]

Diversity and equal opportunity

Since 2013, KRUK S.A. has been a signatory of the Diversity Charter, an international initiative promoted by the European Commission and implemented in EU countries including Poland, Germany, Spain, Italy, Luxembourg, France, Austria, Sweden, Belgium, Ireland, and Estonia. A decision to apply the principles of the Diversity Charter is an organisation's commitment to working towards social cohesion and equality.

The diversity policy shows that an organisation is aware of the differences between people and their fundamental importance for its success. It is an important element of the KRUK Group's business strategy, which facilitates its foreign expansion, while supporting innovation and competitiveness.

The aim of the Diversity Policy is to support a diverse, multi-cultural workplace by guaranteeing equal opportunities for promotion and professional development for each employee regardless of their gender, age, disability, health condition, race, nationality, religion, beliefs, sexual orientation, family status, lifestyle or any other criterion that could cause an individual to be treated less favourably than others.



The policy enables the Group to unlock the potential of all its employees and helps prevent any forms of discrimination or bullying in the workplace.

How does the KRUK Group manage diversity and ensure equal opportunities?

- The Group has career and development paths that every employee can read at any time.
- We operate in several countries, which is why we adjust our working style and expectations regarding business relations to the rules applicable in foreign markets. Guidelines from foreign employees are helpful.

- All employees are treated equally, regardless of their gender, religion, nationality, lifestyle, etc.
- International meetings of employees from different countries are conducted in English.
- Each employee can receive co-financing for the foreign languages courses they need in their day-to-day work. The Group runs a programme where it has defined the precise terms of such co-financing.

Table 48. Composition of governance bodies and employees by gender, age, minority group and other indicators of diversity

Percentage of individuals within the organisation's supervisory bodies in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old;							
Gender	Number of persons on supervisory bodies in the age group ≤30	Percentage of persons on supervisory bodies in the age group ≤30	Number of persons on supervisory bodies in the age group ≥50	Percentage of persons on supervisory bodies in the age group ≥50	Number of persons on supervisory bodies in the age group 30-50	Percentage of persons on supervisory bodies in the age group 30-50	Total
Women	0	0,00%	2	7,00%	11	38,00%	13
Men	0	0,00%	5	17,00%	11	38,00%	16
TOTAL	0	0,00%	7	24,00%	22	76,00%	29

Percentage of employees per employee category in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old							
Gender	Number of employees in the age group ≤30	Percentage of employees in the age group ≤30	Number of employees in the age group ≥50	Percentage of employees in the age group ≥50	Number of employees in the age group 30-50	Percentage of employees in the age group 30-50	Total
Women	724	22,00%	68	2,00%	1228	37,00%	2020
Men	370	11,00%	113	3,00%	832	25,00%	1315
TOTAL	1094	33,00%	181	5,00%	2060	62,00%	3335

Source: Company

6.3.6 Equal remuneration for women and men

The remuneration for women and men in the same positions is comparable in the KRUK Group. Any difference in the overall earnings of women and men may result from the difference in salaries in the IT department and the call centre. A majority of the IT staff are men, while in the call centre most of the employees are women.

manager / others	ratio of average salary and remuneration of women to men
manager	82,00%
other employees	86,00%

[G4-LA13]

6.3.7 Non-discrimination

In the KRUK Group, we want to ensure friendly atmosphere and work environment, because we believe that mutual respect enhances our effectiveness and the growth of the Company and its team.

The Group takes preventive and corrective actions to eliminate and remedy discrimination incidents in the workplace.

- In addition to the Diversity Charter, which the KRUK Group signed and applies, there is the Internal Mediation Policy in place at the organisation. The policy is to support building positive relations between employees.
- It gives detailed instructions on how to resolve personal conflicts between staff members and seeks to prevent mobbing.

Each employee may file a complaint to the ten-member Consulting and Mediation Team. The complaint may be made:

- orally to one of the Team members,
- in writing, to a designated email address.

In 2017, three complaints were filed. They all were investigated and resolved.

[G4-HR3]

6.3.8 Grievance mechanisms for human rights

Any grievance about an alleged violation of rights and values of the KRUK Group is carefully analysed. The mediation policy, apart from preventing conflicts, is designed to protect human dignity and rights. Measures taken by the Group in this respect depend on the violation concerned.

The KRUK Group also has the Employee Forum to consider various initiatives proposed by employees and any complaints made by them about employment or working conditions. Each such complaint is investigated in confidence, taking into account the employees' individual circumstances. Actions taken after a case is examined depend on the circumstances and the severity of harmful or illegal actions, as well as on the type of violation. A conflict or mobbing incident reported is considered within no more than five business days. The Group's Mediation Policy defines in detail the procedures and steps to be taken to resolve a case amicably.

In the reporting period, the Group did not receive any grievances about employment.

The functionality of the Employee Suggestion Scheme, implemented in 2017, is planned to be expanded by the option to contact the Employee Forum to foster active dialogue with employees.

[G4-HR12] [G4-11]

6.3.9 Anti-corruption

In 2017, all KRUK Group companies implemented the Misconduct Prevention Policy and the Instruction for Dealing with Suspected Corruption Incidents.

The Group also has whistleblowing tools for employees to notify the ethics and discipline officers about incidents of abuse, misconduct or dishonesty in general. Anyone noticing irregularities at the Group can report them using a designated form on the website. The employees have been informed about this option via the internal communication system.

[G4-HR12] [G4-SO3]

Because KRUK S.A. is listed on the Warsaw Stock Exchange, the Group employees are required to undergo training in information security and protection and circulation of inside information in the Group. Additionally, every employee is given training in procedures to prevent money laundering and terrorist financing. This is to prevent any activities which would violate the law or applicable rules.

The KRUK Group's anti-corruption measures are also reflected in the Gift Policy.

In 2017, no incidents of this nature were reported to the KRUK Group.

[G4-SO4] [G4-SO5]

6.3.10 Product and service labelling

Dialogue with customers and trading partners

Apart from the social research mentioned above, the KRUK Group conducts regular satisfaction surveys among its clients (debtors whose debts are managed by the KRUK Group) and trading partners.

Innovativeness, high quality of services and, above all, meeting each client's and trading partner's expectations are of key importance in the Group's day-to-day operations. Thanks to the dialogue with these groups, KRUK can on an on-going basis adapt its offering to the market needs and readily develop new solutions, such as the settlement strategy with instalment payment plans tailored to the client's financial circumstances.

Clients – debtors are at the heart of the KRUK Group

Anyone may go into debt in the least opportune moment. This is why we at the KRUK Group prefer to speak of "clients" rather than "debtors". Each client is treated individually, with respect and understanding. We take care to carefully listen to the clients' stories to understand their situation. For several years, we have conducted client satisfaction

surveys, which help us look at the question of service quality from the clients' perspective. The Group thoroughly analyses all the assessments and suggestions from the clients.

Since 2015, the KRUK Group's Customer Experience Management Department has used the Net Promoter Score (NPS) to measure client satisfaction. Thanks to surveys carried out every day, the KRUK Group learns client's real opinions about cooperation with KRUK.

Clients can share their feelings about their phone conversations with consultants and contacts with field consultants, and can comment on the settlement process and the arrangement monitoring phase.

In the surveys, clients are asked to rate a given aspect from 0 to 10. Thus, clients can be divided into three groups: detractors (who give scores between 0 and 6), neutrals (scores of 7–8), and promoters (9–10). To calculate the NPS, the percentage of the least satisfied clients is deducted from the percentage of promoters. The NPS can range between -100% and +100%, where +100% means the highest ratings.

In 2017, nearly 20,000 clients of the KRUK Group took part in the telephone surveys carried out in Poland.

An analysis of the responses received showed that the Group had the following NPS:



The scores are high, which may follow from the KRUK Group's unique approach to customer service and debt matters, but also from the nature of the industry. In the past, the debt management industry had a rather poor reputation. The change in approach to and perception of debt initiated by KRUK was – and by some clients still is – seen as unusual and unexpected.

It is important for the KRUK Group to implement the same activities on all of its markets, therefore similar surveys were conducted in H2 2017 in Romania, and in 2018 they will be done in the Czech Republic and Slovakia (work on the project began in 2017). The surveys are also planned to be introduced on the Italian and Spanish markets.

Trading partners

The KRUK Group is committed to building positive relationships both with individual clients (debtors) and trading partners. The Group makes every effort to ensure that its services meet their expectations, and all these efforts are based on a continuous dialogue supported by various projects undertaken on a regular basis. One such project is a trading partner satisfaction survey, conducted using the following tools and methods:

- a) **NPS (Net Promoter Score)**, cor likelihood of recommendation. In relations with trading partners, this score has a crucial role because it measures to what extent the services rendered by the KRUK Group are worth recommending on the market.
- b) **Standardised CSI (Customer Satisfaction Index)**. The methodology underlying this indicator enables systemic management of relationships with trading partners. It allows the Group to methodically identify both top-rated areas and those that require immediate optimisation.
- c) **Dialogue** – in addition to standardised indicators, dialogue serves to collect and thoroughly analyse answers to open-ended questions in which customers are asked to indicate areas for improvement. This feedback allows the Group to determine which activities are particularly appreciated and as such should be sustained.
- d) **Tracking surveys** – a set of questions asked periodically and in the same manner. This repeatability shows changes in the perception of the KRUK Group by its trading partners and helps the Group to determine whether introduced changes deliver the intended outcomes. Tracking surveys are an important component of the feedback collection system, which gives the Group an insight into the effectiveness of its activities relating to customer experience from the long-term perspective.

In 2017, KRUK's NPS stood at 78%, having increased by 9% in comparison with 2016.

In 2017, the NPS of Kancelaria Prawna RAVEN was 77%, which means an increase by as much as 40% on 2015.

These results show strong willingness of the KRUK Group's trading partners to recommend the Group as a service provider and partner to other companies and institutions.

[G4-PR5]

Marketing and PR communications of the KRUK Group and its compliance with regulations

In 2017, the KRUK Group continued its marketing, educational and communication activities in line with the adopted strategy.

Over the years, the KRUK Group has conducted a number of social studies to research behaviours relating to household budget planning and personal finance management, as well as consumption behaviours and ways out of debt.

The Group's objective is invariably to help its clients in understanding the legal aspects of debt recovery and to support them in regaining creditworthiness and dealing with debt.

The Group addresses its communications and initiatives to the general public because it believes that every person can find themselves in a difficult financial and life circumstances and thus fall into debt. Throughout the year, the Group prepared press releases which were used in educational and awareness materials published in the media. Comments and advice from the Group's experts appeared in the regional and national media.

Presented below is the number of media publications in the markets where the KRUK Group operates.

The Day without Debts, which is a form of investment in and has an impact on the financial education of society, is an opportunity to raise the matters related to household budget planning, financial behaviors of various social groups, and the approach to financial matters. It is also provides a context for an open conversation about ways to get out of debt.

Number of publications on various markets (excluding financial reports)



Total in Poland: **1,104 publications***

87% 4% 6% 3%



Total in Romania: **425 publications**

87% 4% 6% 3%



Total in Italy: **190 publications**

87% 4% 6% 3%



Total in the Czech Republic: **580 publications**

87% 4% 6% 3%



Total in Slovakia: **248 publications**

87% 4% 6% 3%



Total in Germany: **132 publications**

87% 4% 6% 3%



Total in Spain: **70 publications**

87% 4% 6% 3%

* Total for the Group (KRUK S.A. + ERIF BIG S.A.)

For the purposes of communicating with the media, in the autumn of 2017 the KRUK Group commissioned a social survey entitled "Financial behaviours of representatives of various professions in Poland and other European countries". The survey was carried out in the seven markets where the KRUK Group operates. It was the second such survey among respondents from Poland, the Czech Republic, Slovakia, Romania, Germany, Italy, and Spain. Thanks to the survey, the same assumptions and content were used in the communication efforts undertaken on the occasion of the Day without Debts in all these countries. Cultural factors, mentality, behaviours typical of particular countries, etc. were no less important in the selection of relevant information.

The results of the survey showed how in a given country the representatives of individual professions, both employed and unemployed, approached managing the household budget. Do their financial habits change, how do they eke out their budgets and do they have savings to rely on?

In Poland, the Day without Debts and the survey garnered attention from key nationwide and local media, which featured expert opinions by KRUK representatives. Comments appeared, among others, on Channel 1 of Polish Television (TVP1) in the "Good morning, Poland" show, on TVP3 Katowice, local TV station ECHO24, or on popular Polish news portals.

The main findings of the survey were also presented at press conferences held on the Day without Debts in the Czech Republic and Romania. The key media of these countries also became interested in the topic.

It is also worth mentioning that KRUK prepared an educational brochure for its trading partners, journalists and clients, entitled "Poles about Debt and More...". It contains the most interesting results of surveys commissioned by the KRUK Group in the last three years from research agencies.

Educational activities conducted on the Day without Debts were supported by marketing campaigns. In Poland, the KRUK Group prepared a radio and internet campaign based on real client stories. The main goal was to show that there is a different story and real people behind each debt, but there are always ways to get out of debt.

One of the KRUK Group members, ERIF BIG SA, also joined the celebrations of the Day without Debts. On its website infoKonsument.pl, the credit reference agency provided free access to checking one's own credit history.

In addition, in the Czech Republic and Slovakia, in cooperation with job centres, the Group set up free advice points for people struggling with financial difficulties. A total of 46 cities/towns took part in this project::

- 35 Czech cities/towns with the highest unemployment rates and the largest number of people with debts and 11 Slovak cities/towns in which the KRUK Group has the largest numbers of clients. .

Over 900 people took advantage of the free consultations. In addition, in the span of two months (November and December) more than one and a half thousand people called a special free hotline to obtain advice about managing their debts.

The KRUK Group, in cooperation with Slovak non-profit organisations, also organised educational workshops for social workers. The aim of these workshops was to present the KRUK's amicable strategy at each stage of the debt collection process.

In Romania an online educational campaign was organised around the Day without Debts. It was supported by the country's popular bloggers, Mihai Vasilescu and Miruna Ioani, who explained what it meant to carry debt in one's everyday life. About 6,000 internet users read the articles prepared for this campaign. These activities can be described as a continuation of the "I'm More Than My Debt" campaign, conducted in Romania on the Day without Debts in 2016 and widely appreciated by its audience.

In addition, a popular radio station in Romania broadcast for a week interviews about the Day without Debts initiative; a contest was announced and more than 200 listeners took part in it. In all countries these campaigns were also supported in social media channels, such as Facebook or Google+.

Throughout the year, the KRUK Group was also involved in the many educational initiatives. In Poland, the most important marketing and PR projects included:

- An online campaign on the occasion of the World Consumer Rights Day, which was conducted by ERIF BIG S.A. Its aim was to familiarise consumers with the activities of credit reference agencies in Poland and presenting ways of controlling their payment situation with the help of credit reference agencies. Like every year, ERIF also continued educational communication promoting services that allow consumers to check the payment history of travel agencies or tour operators.
- Educational communications in the media about the socio-psychological issues related to managing the home budget in relationships. For the this purpose, in the third quarter of 2017 the KRUK Group carried out a social survey entitled "Household Budgets of Polish Couples". The results of the survey helped draw Poles' attention to the generational change in the approach to and talks about home finances with their partners. Communication support for messages about how finances can affect relationships was provided by an independent expert, psychologist Mateusz Ostrowski.

- The KRUK Group also supported the campaign organised by ERIF BIG S.A. on the occasion of the Positive Information Day. This event was initiated by ERIF BIG S.A., a member of the KRUK Group. The aim of these efforts is to spread knowledge about the benefits of building a positive payment history in credit reference agencies. In 2017, an independent expert, economic journalist Tomasz Jaroszek, became one of the promoters of this idea.
- The KRUK Group also continued cooperation with the Association for Promotion of Financial Education (SKEF), commenced in 2016, as part of the project "Live Financially! or How to Manage Finances in Your Personal Life". KRUK was a partner of the 9th edition of the project initiated by SKEF, in which 21 schools from different Polish cities took part in the 2016/17 school year. A total of 585 students were involved in the project. The 9th edition of the project "Live Financially! or How to Manage Finances in Your Personal Life" was exceptional because two extra hours of lessons were added. The project was extended to include debt-related issues (the causes and consequences, as well as the way out of financial problems, and issues related to saving money). As a partner of the project's 9th edition, KRUK also co-organised the contest. The contest task was to present a financial plan that will help young people to enter adulthood. The students' task was also to present the benefits of early financial planning and to describe the consequences of having no such plan. From among the contest entries, the jury selected 10 finalists who took part in the final ceremony on June 17th 2017 in Warsaw.
- In Romania, on 204 screens, at 30 underground station in Bucharest, KRUK's spots were shown to attract the attention of millions of commuters to KRUK's amicable approach to solving the issues caused by dealing with the burden of debt. An additional goal was to raise public awareness that the issue of debt can be resolved amicably. The campaign was also supported by advertising spots broadcast on the local radio.

The relevance of the KRUK Group's PR activities aimed at educating the public is demonstrated by the fact that in 2017 the campaign conducted in Romania under the slogan "I'm More Than My Debt" received the title of the best PR project worldwide in the prestigious "IPRA Golden Awards 2017" competition. The award was granted in the "Financial Services & Investor Relations" category. This prestigious award granted by IPRA, the international association of PR agencies, was introduced in 1990 to recognise excellence in public relations practice worldwide.

For many years, the KRUK Group has been making every effort to ensure that marketing and PR messages published or broadcast in the media are reliable, ethical, and in accordance with the law and the rules of social coexistence. Advertising messages are important elements of communication with the public, including indebted people, which is why they are prepared in accordance with the rules of broadcasting advertising spots and identifying sponsors.

In 2017, there were no instances of non-compliance with the laws and regulations applicable to the provision and use of services offered by the Group. No penalties were imposed on the Group for non-compliance with the laws and regulations that govern marketing communication, including advertising, promotion, and sponsorship.

[G4-PR7] [G4-PR9]

Awards and distinctions granted to the KRUK Group in 2017, including:

- Consumer's Golden Laurel 2017 – an award granted by consumers in a nationwide poll about the best and recommendable services.
- First prize in the Management Expertise category in the Listed Company of the Year 2016 ranking – in 2017, KRUK was among the top ten companies listed on the WSE's main market. In addition, the Management Board of KRUK S.A. was recognised as the most competent of all listed companies' boards.
- Polish Company – International Champion – KRUK S.A. won the main prize in the "Investor" category.
- Book of Lists 2017 ranking – 1st place in the "Debt Management Companies" category.
- HR Innovator 2017 – an award granted to KRUK for the innovative training project "KRUK Ligon" (a specially prepared room that simulates the flat of a KRUK Group client, equipped with cameras). It allows training KRUK's field consultants in a near-natural environment.
- A Hundred Locomotives of Polish Economy – in the list prepared by Forbes the KRUK Group ranked 9th.
- Polish Project Excellence Award 2017 – KRUK won the silver award in the Organisation and IT Projects category, for the project "Make Ideas Happen". It is a project in which employees of the KRUK Group can submit their ideas for improving working conditions in the KRUK Group.
- Trusted Brand 2017 – an award from the My Company Poland monthly.
- EY Entrepreneur of the Year 2017. Piotr Krupa, President of the KRUK Management Board, was the winner of this competition in Poland in the "Production and Services" category. The judging panel appreciated him "for the revolutionary change of the business model that made the company a pioneer of new solutions on an international scale".

Foreign Awards:

- IPRA Golden World Award Competition – for KRUK Romania for the best PR campaign in the world "I'm More Than My Debt".
- Best Collection Contact Center – award for KRUK Romania
- Credit Management and Collection Awards – award for KRUK Italia



6.4

GRI index

Indicator	Indicator description	Reference in the report (page number)	External assurance
Strategy and analysis			
G4-1	Statement from the President of the Management Board on the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	03	
G4-2	Description of key impacts, opportunities, risks	81	
Organisational profile			
G4-3	The name of the organisation	35	
G4-4	Primary brands, products, and services	45	
G4-5	Location of the organisation's headquarters	35	
G4-6	Number of countries where the organisation operates, and names of these countries	45	
G4-7	Nature of ownership and legal form	35	
G4-8	Markets served, including geographic breakdown, sectors served, and types of customers and beneficiaries	45	
G4-9	Scale of the organisation	45	
G4-10	Total number of employees by employment type, employment contract and region, broken down by gender	47	
G4-11	Percentage of employees covered by collective bargaining agreements	129	
G4-12	Description of the supply chain	122	
G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or value chain	Not applicable	
G4-14	Applicability and application of the precautionary principle in the KRUK Group	81	
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses.	114	
G4-16	Membership of associations, national or international organizations	114	
G4-17	Entities included in the consolidated financial statements	45	
G4-18	Process of defining the report content	117	
G4-19	Identified material aspects of environmental and social impact	115	
G4-20	Relevance of identified aspects of the environmental and social impact of the KRUK Group	117	
G4-21	Limitations of the report regarding material aspects of environmental and social impact outside the organisation	115	
G4-22	Effect of any restatements of information provided in previous reports	113	

Indicator	Indicator description	Reference in the report (page number)	External assurance
G4-23	Changes in relation to previous periods covered by the report regarding the scope and boundaries relating to the engagement of external stakeholders	113	
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G4-25	Basis for identifying and selecting stakeholders engaged by the KRUK Group	117	
G4-26	The Group's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	117	
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the KRUK Group has responded	115, 117	
G4-28	Reporting period	113	
G4-29	Date of most recent previous report (if any)	113	
G4-30	Reporting cycle	113	
G4-31	Contact person	113	
G4-32	GRI Content Index	138	
G4-33	Policy and practice with regard to seeking external assurance for the report	114	
Governance			
G4-34	Structure and composition of the governance body of the KRUK Group with other committees of the highest governance body responsible for decision-making on economic, environmental and social impacts	98	
G4-38	Number and gender of members of the highest management and supervisory body	47	
Ethics			
G4-56	The values of the KRUK Group, its principles, standards and norms of behaviour and ethics	114	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity	129	
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G4-DMA	Management of material aspects or their impacts	Not applicable	
G4-EC1	Direct economic value generated and distributed	117	
Aspect: Market presence			
G4-EC5	Ratio of the entry level wage by gender at significant locations of operation to the minimum wage	117	
G4-EC6	????????????????????????????	117	
Aspect: Indirect economic impacts			
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Indicator	Indicator description	Reference in the report (page number)	External assurance
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Aspect: Emissions			
G4-EN15	Direct greenhouse gas emissions	124	
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G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	125	
G4-LA3	Return to work and retention rates of employees who took parental leave, by gender	125	
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Aspect: Diversity and equal opportunity			
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Indicator	Indicator description	Reference in the report (page number)	External assurance
Aspect: Equal Remuneration for women and men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Not applicable	
Aspect: Non-discrimination			
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	127	
G4-HR3	Total number of incidents of discrimination and corrective actions taken	129	
Aspect: Human rights grievance mechanisms			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	129	
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G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	129	
G4-S04	Communication and training on anti-corruption policies and procedures	129	
G4-S05	Confirmed incidents of corruption and actions taken	129	
Aspect: Compliance			
G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	91	
Aspect: Product and service labelling			
G4-PR5	Results of surveys measuring customer satisfaction	131	
Aspect: Marketing Communications			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	133	
Aspect: Compliance with marketing communications regulations			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	133	

Source: Company

[G4-32]



Other information

Performance of Company shares on the Warsaw Stock Exchange

Investor Relations

Glossary of terms



7.1

Performance of Company shares on the Warsaw Stock Exchange



PLN 4.4bn

KRUK Group's market cap

respectively. Stronger performance of KRUK stock followed from the publication of its growing earnings figures, favourable prospects for the debt management sector in Central and Western Europe, as well as positive recommendations issued by analysts working for brokerage houses. On the last trading day in 2017, the Company's market capitalisation was PLN 4.9bn (compared with PLN 4.2bn at the end of the previous year). On December 31st 2017, KRUK ranked 30th in terms of market capitalisation on the WSE.

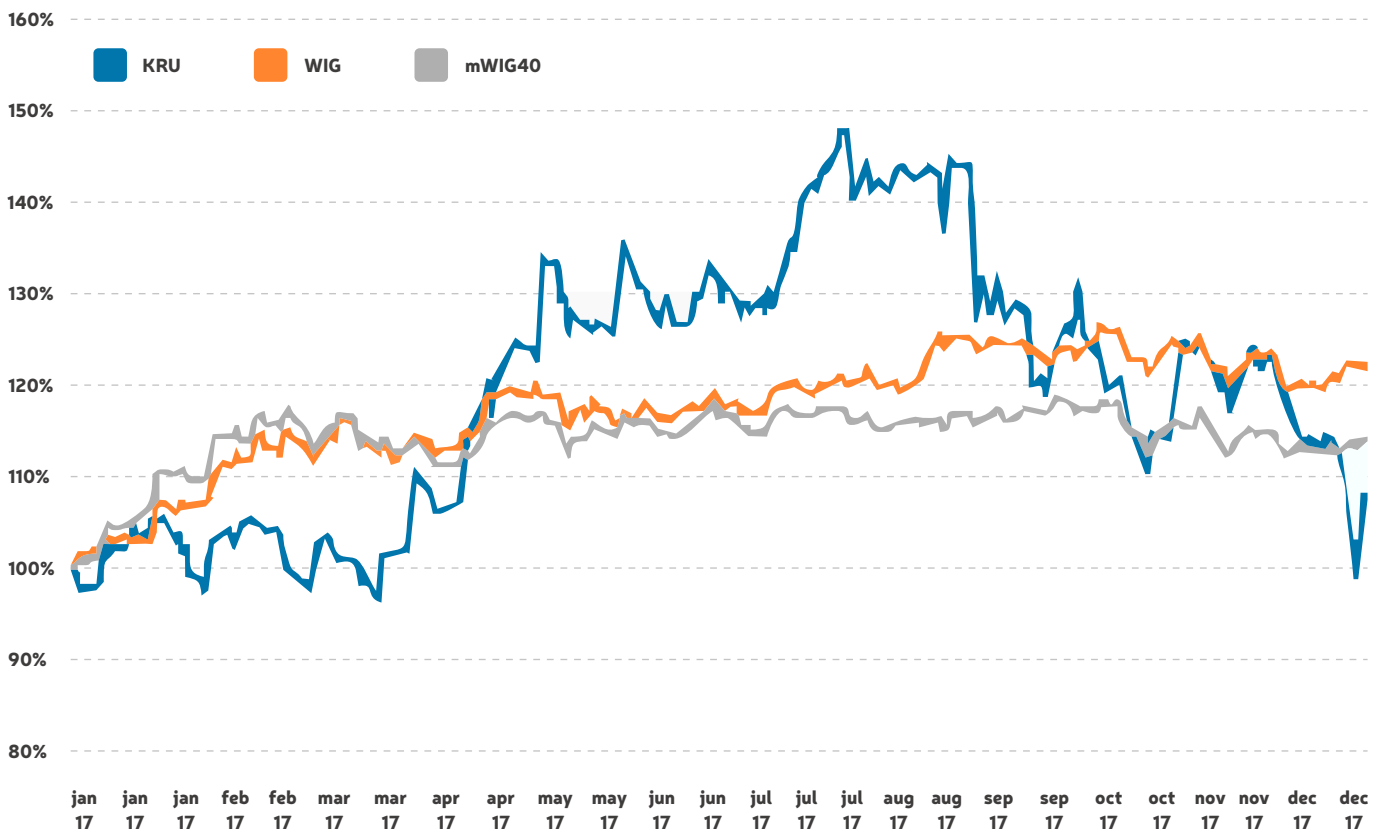
6.1.1 Share price

KRUK share price on the WSE climbed by 11% in 2017 (2016: up 38%), less than the WIG and mWIG40 indices, which grew 23% and 15%,

Table 49. Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2017 – closing prices



Chart 1. KRUK S.A. stock price against WIG and mWIG40 in 2017 (beginning of the year = 100%)

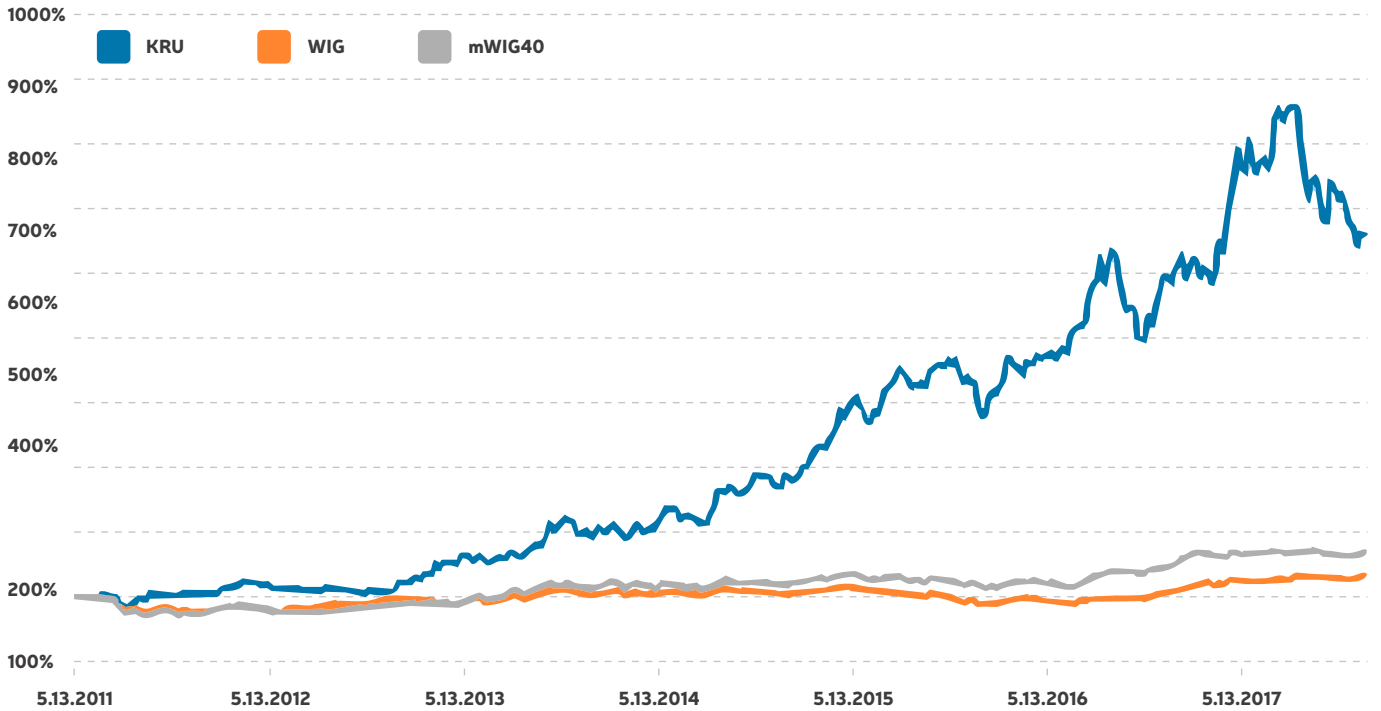


Source: in-house analysis, based on stooq.pl.

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 2017, the rate of return on KRUK shares was 662%. Over the same period, the WIG index, reflecting the dynamics of the entire stock

market, rose by 134%, while the mWIG40 index (mid-cap companies) went up by 171%.

Chart 2. Performance of KRUK stock against WIG and mWIG40 from the Company's IPO at the WSE in May 2011 until the end of 2017



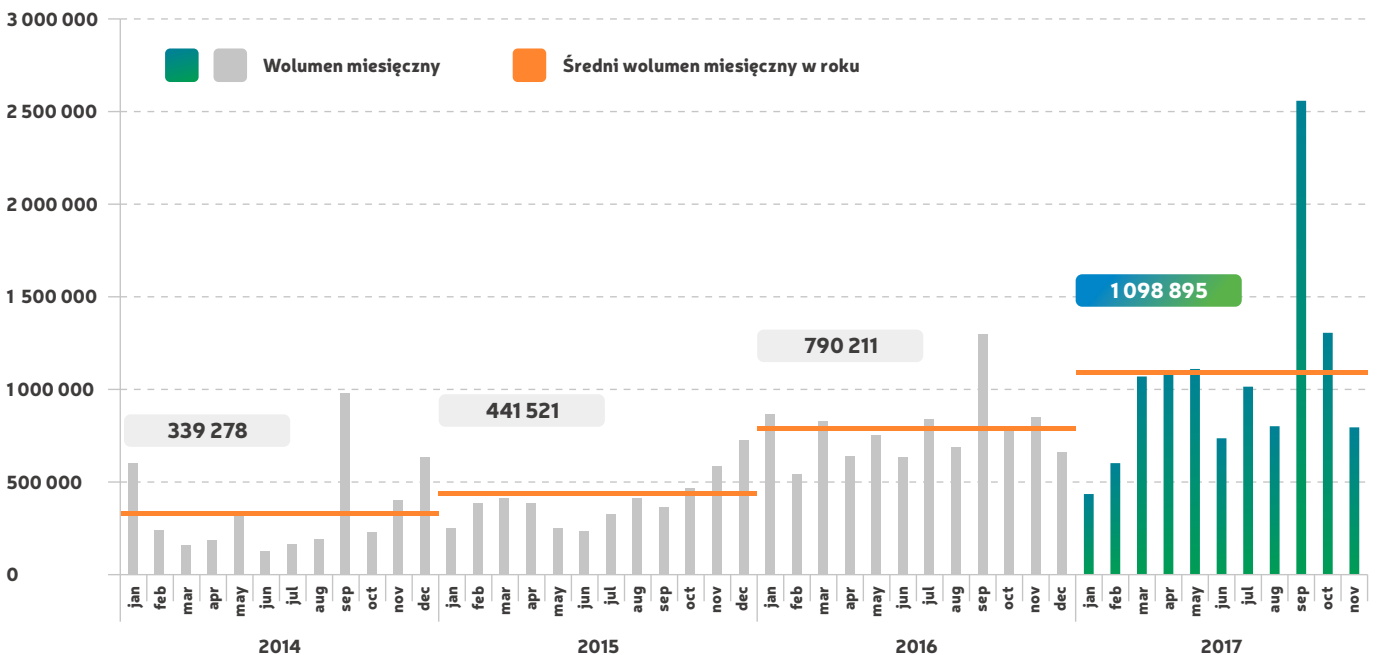
Source: in-house analysis, based on stooq.pl

6.1.2 Liquidity

The total volume of KRUK S.A. shares traded in 2017 was 13.8m, and the total value of trading reached PLN 3.7bn. To compare, the total volume of KRUK S.A. shares traded in 2016 was 9.4m, and the total

value of trading reached PLN 1.8bn. The average daily trading volume of KRUK shares in 2017 was 52.7 thousand shares, and the average daily trading value was PLN 15m. In 2017, KRUK was the 18th most liquid company on the WSE (in terms of total annual trading value).

Chart 3. Monthly volume in individual months and the year's average monthly volume of trade in KRUK shares in 2014–2017



Source: in-house analysis based on www.gpw.pl

7.2

Investor Relations

The Company's activities and initiatives in the Investor Relations area are targeted at:

- Polish institutional and retail stock and bond investors,
- foreign institutional stock investors,
- brokerage house and investment bank analysts, and
- financial journalists.

The Company receives positive feedback on the quality of communication from domestic and foreign investors. The activities undertaken by the Company enhance the investors' knowledge and activity. For more information on key Investor Relations activities in 2017, see Table 50.

Table 50. Key Investor Relations activities in 2017

	Number of non-deal roadshows	Number of investor conferences
Poland	4	4
Foreign markets	4	11

Source: in-house analysis.

Polish institutional stock and bond investors

- Four conferences organised following the publication of results for 2016, Q1 2017, H1 2017 and Q1–Q3 2017
- Participation in the Wood Emerging Europe Financials Conference in Warsaw in June 2017
- Participation in the mBank Financial Event in October 2017
- Participation in the conference organised by BZ WBK for Polish institutional investors in November 2017.
- Mailing to investors on material events at the Company
- Continuous contact with investors

Polish retail stock and bond investors

- Participation in the Wall Street 21 conference organised by the Polish Association of Retail Investors in June 2017
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website
- Continuous contact with investors

Foreign institutional stock investors

- Four conference calls organised following the publication of results for 2016, Q1 2017, H1 2017 and Q1–Q3 2017
- Organisation of four non-deal roadshows in Vienna/Prague, Toronto/Boston/New York, London/Edinburgh and New York/Boston
- J.P. Morgan 2017 CEEMEA Conference in London
- Polish Capital Market – London 2017 conference organised by PKO BP
- Polish Innovation & Growth Conference in Stockholm organised by Wood&Co.
- SmallCap & MidCap Event in Paris
- Erste Group Investor Conference 2017 – Stegersbach
- Frontier & Emerging Conference 2017 organised by Auerbach
- JP Morgan Poland Investment Forum in New York
- WOOD's Winter in Prague Conference 2017
- Participation in three industry conferences: Debt Purchase Seminar in Oslo (Arctic Capital), Debt Collectors Day in Stockholm (Carnegie), NPL Equity Conference in Venice (Mediobanca)
- Mailing to investors on material events at the Company
- Continuous contact with investors

Brokerage house and investment bank analysts

- Four conferences organised following the publication of results for 2016, Q1 2017, H1 2017 and Q1–Q3 2017
- Mailing to investors on material events at the Company
- Continuous contact with analysts

Table 51. Sell-side analysts covering KRUK

Company	Analyst	Contact details
BDM DM	Maciej Bobrowski	bobrowski@bdm.pl
BZ WBK DM	Dariusz Górski	dariusz.gorski@bzbwbk.pl
Erste Group DM	Mateusz Krupa	mateusz.krupa@erstegroup.com
Ipopema DM	Łukasz Jańczak	lukasz.janczak@ipopema.pl
JP Morgan	Michał Kuzawiński	michal.kuzawinski@jpmorgan.com
mBank DM	Michał Konarski	michal.konarski@mdm.pl
PKO BP DM	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
Trigon DM	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Vestor DM	Michał Fidelus	michal.fidelus@vestor.pl
Wood & Co.	Jerzy Kosiński	jerzy.kosinski@wood.com

Source: in-house analysis.



Financial journalists

- Four conferences organised following the publication of results for 2016, Q1 2017, H1 2017 and Q1–Q3 2017
- Press releases concerning key corporate events
- Interviews and comments by Company representatives in financial media (such as Parkiet, Puls Biznesu, Stockwatch)
- Maintaining the Company's profile on Stockwatch

The key themes of the Company's 2017 market communication included:

- Communication of the implementation of the 2015–2019 strategy, covering product range development and growth in geographical regions, including the new markets: Italy, Spain and Germany
- Payment of dividend of PLN 2.5 per share – the third dividend distribution since the Company's stock exchange debut;
- Development of financing of operations by obtaining a multi-currency (including euro) revolving credit facility of up to EUR 250m and issuing further euro bonds (private placements);
- Improved liquidity of the Company's stock on the Warsaw Stock Exchange (trading volume up 47% year on year). The Company currently uses the services of three market makers on the WSE.

7.3

Glossary of terms

Pojęcie	Definicja
Auditor	KPMG Audyt Sp. z o.o. of Warsaw – the Company’s auditor
CAGR	Compound Annual Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	Profit/(loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.
EPS	Earnings per share
EUR	Euro
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
The Group, the KRUK Group	The Company as the Parent along with its subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
ItaCapital	ItaCapital S.r.l of Milan, Italy
Kancelaria Prawna RAVEN	Kancelaria Prawna RAVEN P. Krupa spółka komandytowa of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK Espana	KRUK Espana S.L. of Madrid, Spain
KRUK Italia	KRUK Italia S.r.l of Milan, Italy

Pojęcie	Definicja
KRUK ROMANIA	KRUK Romania s.r.l of Bucharest, Romania
KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards endorsed by the European Union, including International Accounting Standards, International Financial Reporting Standards and related Interpretations endorsed by the European Union
NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, BISON NS FIZ
GDP	Gross Domestic Product
PLN	Polish złoty
UOKiK President	President of the Office of Competition and Consumer Protection
2015-2019 Scheme	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase.
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)
Prokulus NS FIZ	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)
Supervisory Board	The Company's Supervisory Board
ROE	Return on Equity, computed as the ratio of consolidated net profit to equity as at the end of period
RON	Romanian leu

Pojęcie	Definicja
Regulation on current and periodic information	The Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 209, item 1744, as amended)
SeCapital Luksemburg	SeCapital S.à.r.l. (Luxembourg)
SeCapital Polska	SeCapital Polska Sp. z o.o. of Warsaw
Consolidated financial statements	The Group's consolidated financial statements for the reporting period ended December 31st 2015, prepared in accordance with the IFRS
Company KRUK Issuer	KRUK S.A. of Wrocław
Subsidiaries	The Company's subsidiaries, as defined in the Polish Accounting Act, and Kancelaria Prawna RAVEN
Articles of Association	The Company's Articles of Association
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
USD	US dollar
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board
Financial liabilities	Total financial liabilities under: <ul style="list-style-type: none"> • bonds or other similar debt securities; or • non-bank borrowings; or • bank borrowings; or • finance leases; or • promissory notes issued by way of security for liabilities of non-KRUK Group entities; or • guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or • accession to debt owed by non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or • assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or • concluded derivative transactions.

The Directors' Report on the operations of the KRUK Group in 2017 is presented by the Company's Management Board, consisting of the following members:

Piotr Krupa

CEO and President of the Management Board

Urszula Okarma

Member of the Management Board

Agnieszka Kułton

Member of the Management Board

Iwona Słomska

Member of the Management Board

Michał Zasepa

Member of the Management Board

Wrocław, March 19th 2018



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