



**KRUK S.A. DIRECTORS REPORT  
ON OPERATIONS OF Kruk S.A.**

**IN 2017**



**BUILDING BRIDGES  
BETWEEN PEOPLE FOR 20 YEARS**

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## 1 OVERVIEW OF THE COMPANY

### 1.1 General information about the Company

#### 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 entry 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.

#### Contact details

Name: KRUK SPÓŁKA AKCYJNA

Registered address: Wołowska 8, 51-116 Wrocław, Poland

Telephone: (071) 79 02,800

Fax: (071) 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.

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### 1.2 Business model

KRUK S.A. is the parent of the KRUK Group. A comprehensive overview of the Group's business and sources of revenue is presented in the Director's Report on the Operations of the KRUK Group. In the Management Board's opinion, reading this document is essential for proper and thorough assessment of the Company's performance in 2017.

The Company's operations are based on a successful business model, implemented across the entire Group. The Company is active both in the debt purchase and credit management segments of the debt collection market. Due to the nature of the debt collection industry (particularly operation of securitisation funds) and the wide range of services and activities performed by the KRUK Group (including in particular litigation-based debt collection and credit reference agency services), separate results of the Company do not reflect the Group's actual performance. Only an analysis of the combined potential of the Company and its subsidiaries, taking into account the nature of their operations, gives a comprehensive picture of the Company's business model and enables proper assessment of its operating and financial performance.



Declaration of the President of the Management Board of KRUK S.A. on the importance of sustainable development for the organization and its strategy, see the KRUK Group Management Report for 2017. [\[G4-1\]](#)

### 1.3 Financial highlights for 2017

KRUK S.A. is the parent of the KRUK Group. Given the intra-Group organisational and business links, its financial and operational performance should be assessed in the context of the Group's overall performance.

In December 2017, the number of FTEs\* in the Company was 1,358.64 (in 2016, the Company did not count its workforce based on FTEs).

*\*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.*

#### Report the total number of employees by employment contract and gender

| Type of employment         | Number of women | Number of men | TOTAL       |
|----------------------------|-----------------|---------------|-------------|
| Practice                   | 1               | 1             | 2           |
| Employment contract        | 896             | 613           | 1509        |
| Cooperation                | 1               | 1             | 2           |
| Management contract        | 3               | 2             | 5           |
| Self-employment assignment | 3               | 0             | 3           |
| <b>Total amount</b>        | <b>904</b>      | <b>617</b>    | <b>1521</b> |

#### Report the total number of permanent employees broken down by employment type and gender

| Type of employment  | Number of women | Number of men | TOTAL      |
|---------------------|-----------------|---------------|------------|
| Employment contract | 524             | 385           | 909        |
| Cooperation         | 1               | 1             | 2          |
| <b>Total amount</b> | <b>525</b>      | <b>386</b>    | <b>911</b> |

#### Report the total workforce by employees and supervised workers and by gender

| Type of position        | Number of women | Number of men | TOTAL       |
|-------------------------|-----------------|---------------|-------------|
| CEO, directors, manager | 110             | 79            | 189         |
| The rest of employees   | 794             | 538           | 1332        |
| <b>Total amount</b>     | <b>904</b>      | <b>617</b>    | <b>1521</b> |

#### KRUK S.A. Management Board broken down by gender

| TOTAL      | Women | Men |
|------------|-------|-----|
| 5          | 3     | 2   |
| Percentage | Woman | Men |
| 100%       | 60%   | 40% |

The Supervisory Board of KRUK S.A. broken down by gender

| TOTAL      | Women | Men |
|------------|-------|-----|
| 7          | 1     | 6   |
| Percentage | Women | Men |
| 100%       | 17%   | 83% |

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The table below presents selected data and financial highlights of the Company for 2017, with comparative data for 2016.

Table 1. Financial performance in 2016–2017

|                                      | Period ended Dec 31                |           |        |
|--------------------------------------|------------------------------------|-----------|--------|
|                                      | 2017                               | 2016      | Change |
|                                      | (PLN '000 unless stated otherwise) |           |        |
| Revenue                              | 142,722                            | 132,126   | 8%     |
| EBITDA                               | -53 338                            | -40 559   | 32%    |
| Operating profit (EBIT)              | -65,022                            | -49,774   | 31%    |
| Net finance income                   | 125,752                            | 68,102    | 85%    |
| Net profit for period                | 29,514                             | 4 212     | 601%   |
| Cash flows from operating activities | 639,962                            | -65 875   | -      |
| Cash flows from investing activities | -879,774                           | -594 732  | 48%    |
| Cash flows from financing activities | 93,794                             | 818,337   | -89%   |
| Total net cash flows                 | -146,019                           | 157,730   | -      |
| Total assets                         | 3,143,654                          | 2 362 301 | 33%    |
| Equity                               | 714,625                            | 701,251   | 2%     |

Source: Company

## 2 MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS WITH A BEARING ON THE COMPANY’S BUSINESS

### 2.1 Structure and description of the debt management market

In 2017, KRUK was active mainly on the Polish and Romanian markets. During the year, KRUK operated in the debt purchase segment of the Polish and Romanian markets and provided credit management services in Poland, to both external clients and entities of the KRUK Group. For a description of the debt management market and its structure, and the presentation of the key factors affecting the Company’s business, see section “Structure and description of the debt management market” of the Director’s Report on the operations of the KRUK Group.

### 2.2 Legal and regulatory environment

The operations of KRUK S.A. are governed by laws and regulations described in the sections below. Investors are advised to read the “Legal and regulatory environment” section of the Directors' Report on the Operations of the KRUK Group in 2017.

#### 2.2.1. Securitisation funds

On October 12th 2017, KRUK S.A. entered into an agreement to manage the securitised debt of Bison NS FIZ. 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. The agreements provide, *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. As of April 1st 2015, KRUK S.A. manages the securitised debt of PROKURA NS FIZ. As regards the performance of the above agreements, the Company is subject to the supervision of the Polish Financial Supervision Authority.

#### 2.2.2. Private detective services

The Company’s operations involving private detective services are also regulated and as such must be registered in the register of detective agencies, maintained by the Minister of Internal Affairs and Administration.

#### 2.2.3. 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.

#### 2.2.4. 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.

#### **2.2.5. Changes in laws and regulations applicable to the Company's business**

In 2017, the most important changes in the laws and regulations applicable to the Company's operations followed primarily from the enactment of the regulations named the "creditors' package". 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 (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.

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.

#### **2.2.6. Other authorities materially involved in oversight of the Company's operations**

KRUK S.A.'s activities are also regulated by other authorities. These include:

- President of the Polish Office of Competition and Consumer Protection, with respect to competition and consumer rights protection,
- The Inspector General for Personal Data Protection – with respect to processing and protection of personal data.



### 3 OVERVIEW OF THE COMPANY'S BUSINESS

#### 3.1 The Company's business and branches

KRUK S.A. is the parent of the KRUK Group. The Company's core business is debt collection, including debt purchase and credit management services.

#### 3.2 Organisational 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 2. Structure of the KRUK Group



Source: Company

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   |
| Prokura NS FIZ securitisation fund                   | 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 Česká a Slovenská 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 the 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                          |
| ItaCapital S.r.l                                     | Milan             | Investing in debt or debt-backed assets  |
| KRUK España 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.à r.l.                             | Luxembourg        | Special-purpose securitisation vehicle which invests in debt or debt-backed assets   |
| P.R.E.S.C.O. Investment I NS FIZ securitisation fund | Wrocław           | Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Presco Investments S.a r.l.   |
| Presco Investments S.a r.l.                          | Luxembourg        | Special-purpose securitisation vehicle which invests in debt or debt-backed assets   |
| Elleffe Capital S.r.l.                               | La Spezia         | Investing in debt or debt-backed assets  |
| Bison NS FIZ (closed-end investment fund)            | Wrocław           | Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.                     |

Source: KRUK Group

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.

[\[G4-4\]](#)[\[G4-6\]](#)[\[G4-8\]](#)[\[G4-9\]](#)[\[G4-17\]](#)

### 3.3 Changes in the structure of the KRUK Group

Changes in the Group's structure in 2017 and by the date of this report are presented below.

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.

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 was signed whereby two subsidiaries of KRUK S.A., namely ESPAND SOLUCIONES DE GESTION S.L. and KRUK España S.L. were merged. In accordance with the deed, the merger was effected on October 1st 2017 by ESPAND SOLUCIONES DE GESTION, S.L. taking over all the assets, rights and obligations 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%,
- 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.

### 3.4 Changes in the Company's and Group's significant management policies

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.

Table 2. 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               |
| <b>TOTAL</b> | <b>18,807,900</b>       |

Source: Company

### 3.5 Share capital

#### 3.5.1. 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.

Table 3. 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               |
| <b>TOTAL</b> | <b>18,807,900</b>       |

Source: Company

### 3.6 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 4. 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 24th 2017                               | 1,000,000            | Series G | Resolution No. 4/2016 of the Extraordinary General Meeting of November 29th 2016 | 18,744,216  | CR No. 11/2017  |
| 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 |

Source: Company

### 3.7 Products and services offered by the Company

One area of the Company's business is credit management services.

The debt collection process depends on the specific nature and status of debt, as well as on the needs of the Group's trading partner. Credit management services:

- are tailored to trading partners' preferences and needs,
- comply with the highest standards and best practices,
- comply with the applicable legal regulations.

As part of its credit management services KRUK S.A.:

- provides debt management services at all stages of delinquency, and applies instruments tuned to a specific debt portfolio (servicing period, tools and process used) and tailored to the expectations of individual trading partners,
- uses efficient operational methods which rely on advanced IT systems, such as the Delfin IT platform, which supports the entire credit management process.

#### Loss prevention services

##### *Detective investigation*

Detective investigations are carried out chiefly where a client plans to enter into a transaction involving a large financial exposure. The findings form a picture of the investigated entity's or person's financial standing and creditworthiness. An investigation may also be conducted to analyse documentation and links between members of a corporate group. Detective investigations are carried out by licensed detectives. Such activities can be performed in a covert or overt manner with respect to the investigated firm.



## Credit management services

### *Collection monitoring*

Monitoring of amounts due from debtors is a very prompt and early response to payment irregularities and payment delays (even by a couple of days). At this very early stage of managing debts, it is of paramount importance to outsource debt monitoring to a partner which has the relevant know-how and ready-to-use solutions. The process is based on the Contact Center technology, facilitating regular monitoring, tailored to the Client's needs and profile. The main objective of contacts with a debtor is to restore regular repayments and avoid agreement termination, as well as to discipline the debtor and prevent further delays in repayments. Therefore, actions undertaken in the course of debt monitoring are primarily based on telephone contacts. It is crucial here that the probability of reaching a debtor and talking to them is very high at this stage.

### *Amicable collection of commercial and consumer debts*

The purpose of the amicable debt collection process is to recover debt as quickly as possible, using the most effective tools for particular debt categories. Amicable collection encompasses a very broad range of activities. Its processes are differentiated and personalised. They use numerous tools chosen according to the nature of the client's cases and the client's needs. Each debt portfolio accepted for management is analysed, and relevant know-how, knowledge of the industry, and selection of an appropriate collection process for a given case type facilitate effective credit management and accurate planning of future transactions. KRUK also conducts restructuring processes and offers agreements for debt repayment in instalments. In our amicable collection activities, we put emphasis on reaching the debtor, establishing contact with them, and agreeing on feasible options of debt repayment.

### *Field consultants*

As part of the collection process, a field consultant may visit a debtor or detective activities may be performed at a debtor's domicile or place of business. During such visits, the consultant and debtor may agree upon the terms of debt repayment or settlement, and the consultant may also collect cash or collateralised assets. Doorstep collection is also effective for high-value and high-priority cases, e.g. where there is a suspicion that the debtor is hiding or disposing of their property.

### *Repossession of collateralised assets*

Claims secured over movable or non-movable property may be enforced by repossessing collateralised assets. The full service comprises collection and transport of collateralised assets, as well as their storage, valuation and sale.

### *Administration of mortgage-backed debt cases*

The process used with respect to mortgage-backed debts includes all tools available for individual services. The main assumption is a case-by-case approach and precise adaptation of the process to the nature of mortgage debt (high balances, security provided in the form of mortgage over real estate). The process has been designed based on non-standard solutions, where KRUK S.A.'s advisors act in a double role of an advisor and the creditor. For this service, the main assumption is individual treatment of each case and providing support in the amicable phase of the collection process on the basis of received authorisations. After a case is accepted for collection, it undergoes a detailed review

in terms of its status, the financial situation of the debtor, and quality of the security. Then, depending on the findings, steps are undertaken to restore regular repayments, arrange credit restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate). In the course of collection of mortgage-backed debts, we conduct proceedings also in the court and enforcement phase. As part of credit management services we also offer debt recovery by way of court and enforcement proceedings, provided through Kancelaria Prawna RAVEN, a Group company.

#### *Hybrid services with the assistance of ERIF Biuro Informacji Gospodarczej*

The credit reference agency ERIF Biuro Informacji Gospodarczej provides effective operational support for the activities of KRUK S.A. Amicable collection combined with the possible sanction of entering the debtor's details in ERIF is a hybrid service, unique on the Polish market.

#### *The Pożyczka Novum loan service*

As part of the service, until October 25th 2016 the Company granted short-term cash loans to debtors who have repaid or regularly repay their debts to the Group. As part of the NOVUM business line, consumer loans of up to PLN 10,000 were granted for periods from 3 to 12 months. On November 1st 2016, the consumer loan service was launched at Novum Finance Sp. z o.o. In 2016, KRUK S.A. discontinued its consumer lending business and, upon deletion of the relevant entry from the National Court Register, the Company assigned its receivables under loans to Novum Finance Sp. z o.o. and P.R.E.S.C.O. Investment I NS FIZ.

[\[G4-4\]](#)

### **3.8 Material events with a bearing on the Company's operations during the financial year**

#### **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 ("Agreement", "Seller"). The agreement provided for the purchase of unsecured consumer loan debt with a total nominal value of approximately EUR 750.6m (PLN 3.26bn as translated at the mid-exchange rate quoted by the NBP for January 16th 2017).

### **3.9 Non-recurring factors and events**

On December 22nd 2017, KRUK S.A. contributed 121,319,000 shares in Secapital S.a.r.l to InvestCapital Ltd in exchange for 229,209,000 shares in the latter. The difference between fair and book value of Secapital S.a.r.l shares of PLN 96.327.000 was included in position actualisation of investment value in subsidiaries in profit and loss statement.

### **3.10 Material events after December 31st 2017**

None.

### **3.11 Executed agreements**

#### **3.11.1 Material agreements**

In 2017, the Company did not enter into any agreements that may be considered material. Agreements concluded by other Group companies are presented in detail in the Directors' Report on the operations of the KRUK Group.

#### **3.11.2 Material related-party transactions executed on a non-arm's length basis**

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

#### **3.11.3 New and terminated loan and credit facility 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 by the Company 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 Credit Facility Agreement, as amended, on November 20th 2017, in order to secure the Bank's receivables under the above credit facility agreements, KRUK S.A. and Bank Zachodni WBK S.A. signed an agreement creating a registered pledge over 8,964,814 investment certificates issued by PROKURA NS FIZ and held by KRUK S.A. Additionally, a financial pledge was created under the registered pledge agreement, which expired upon the entry of the registered pledge into 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 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, which 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.

### 3.10. Securities in issue

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 13. Bond issues in 2017**

| Bond Series  | Nominal value    | Issued    | Redeemed  | Interest rate | Interest payment |
|--------------|------------------|-----------|-----------|---------------|------------------|
| AE1          | EUR 20.0m        | May 2017  | May 2022  | fixed 3.59%   | every 12 months  |
| AE2          | EUR 20.0m        | June 2017 | June 2022 | fixed 3.59%   | every 12 months  |
| <b>total</b> | <b>EUR 40.0m</b> |           |           |               |                  |

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 relevant series.

**Table 14. Bonds redeemed by the Company in 2017**

| Bond Series                    | Redeemed      | Number of bonds redeemed | Nominal value   |
|--------------------------------|---------------|--------------------------|-----------------|
| P <sup>2+</sup> P <sup>3</sup> | March 2017    | 60,000                   | PLN 60m         |
| P <sup>4</sup> +R <sup>1</sup> | May 2017      | 60,000                   | PLN 60m         |
| T1                             | December 2017 | 150,000                  | PLN 15m         |
|                                | <b>total</b>  |                          | <b>PLN 135m</b> |

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.)

### **3.12 Loans advanced and sureties and guarantees granted; sureties and guarantees received**

#### **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 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 the loans (principal) amounted to PLN 69 million (as translated at the average exchange rate quoted by the NBP for December 29th 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 rate 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 net of 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 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.

#### **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 its 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. 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 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 España 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 España S.L. (which took over Espand Soluciones de Gestion S.L. during the year).

### **Loan from RoCapital I.F.N. of Romania**

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 8.9m.

### **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.

## **Guarantees**

### **Guarantees received**

On December 8th 2017, KRUK S.A. 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 KRUK S.A. 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.

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 will become final by January 24th 2018, on October 24th 2017 KRUK S.A. issued a corporate guarantee of up to PLN 9m to InvestCapital Ltd. The guarantee will expire on January 24th 2018. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who can challenge the share capital cancellation by January 24th 2018.

## **Sureties**

Following the conclusion on July 3rd 2017 of a revolving multi-currency credit facility agreement between KRUK S.A., InvestCapital LTD ("Borrower"), 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, 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 on September 1st 2017 of an annex to the revolving credit facility agreement of July 2nd 2015 by PROKURA NS FIZ, the Company and mBank S.A., 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 not later than on July 1st 2025.

### 3.11. Development directions and prospects

The Company's strategy reflects the strategy of the KRUK Group:

#### 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 3.



Figure 3.1 KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions

| Current business lines   |                             | Poland | Romania | Czech Republic | Slovakia | Germany | Spain | Italy | ... | ... |
|--------------------------|-----------------------------|--------|---------|----------------|----------|---------|-------|-------|-----|-----|
| Debt portfolio purchases | Consumer unsecured          | ●      | ●       | ●              | ●        | ◐       | ◐     | ◐     | ○   | ○   |
|                          | Consumer mortgage           | ●      | ●       | ○              | ○        | ○       | ○     | ○     |     |     |
|                          | Corporate and SMEs          | ●      | ●       | ○              | ○        | ○       | ◐     | ○     |     |     |
|                          | Third party debt collection | ●      | ●       | ●              | ●        | ○       | ●     | ○     |     |     |
|                          | Consumer loans              | ●      | ◐       | ○              |          |         |       |       |     |     |
| Credit information       |                             | ●      | ○       |                |          |         |       |       |     |     |

 - Fully operational
  - Partly operational / Launch of the process
  - Planned launch of operations / Planned analysis of potential

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.

Source: Company

### 3.11.1. 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%<br>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 strategic objectives in 2017.

| Specific strategic objectives                                | Key initiatives implemented in 2017  |
|--|--|
| Product range development and growth in geographical regions | <ul style="list-style-type: none"><li>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;</li><li>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);</li><li>Czech Republic and Slovakia: doubling of the number and value of cases under management;</li><li>Germany: investment in further consumer debt portfolios, outsourcing cases for collection by external business partners;</li><li>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)</li><li>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)</li></ul> |
| Improvement of management efficiency                         | <ul style="list-style-type: none"><li>development of customer experience processes;</li><li>development of e-services, including the launch of the e-kruk.pl website in Poland;</li><li>optimisation measures based on the lean tools;</li><li>improved valuations, including on new markets;</li><li>improvement of the systematic approach to risk.</li></ul>  |

Source: Company

### 3.12. Capital expenditure programme

#### 3.12.1. Capital expenditure

In 2017, the main capital expenditure made by the Company included PLN 3.4m spent on new vehicles (including under finance lease agreements) and PLN 4.7m spent on plant and equipment. The Company

also made material investments of PLN 6.0m in licences and software, including PLN 5.8m invested in proprietary software.

### 3.12.2. Investments within the Group

In 2017, KRUK S.A. increased/reduced the share capitals of its subsidiaries:

**Table 15. 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 10.43m* |
| KRUK España 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 into 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 contribution date.

\*\* - Translated at the mid exchange rate quoted by the NBP for the debt conversion agreement date, 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, the subsidiary InvestCapital Ltd reduced the share capital of Secapital S.à.r.l. by a total amount of PLN 135.9m.

In 2016, the subsidiary Secapital S.à.r.l. reduced the share capital of Presco Investment S.a r.l. by a total amount 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.

### 3.12.3. Assessment of the feasibility of investment plans

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

### 3.13. Risk factors – internal factors [G4-2] [G4-14]

#### 3.13.1. Material risk factors

Risk of failure to achieve the Company's strategic objectives

There is a risk that the Company 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 Company 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 Company'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 Company's operations, financial standing or performance. There can be no assurance that the Company will maintain or improve its historical performance and therefore the Company's historical performance should not be treated as indicative of its future results.

##### **3.13.1.1. Risk of error in estimating the fair value of acquired debt portfolios**

In the course of its operating activities, the Company 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 Company 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).

### **3.13.1.2.      *Operational risk related to the Company's business***

The Company 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 Company's assets; external events and factors (including errors in registering economic events or amendments to legal regulations); fraud and embezzlement.

### **3.13.1.3.      *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 Company and loans it advances. Factors with the strongest effect on the scale of the Company'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.

### **3.13.1.4.      *Debt risk***

Debt portfolio purchases involve making large one-off payments. To secure the necessary funding for debt portfolio purchases, the Company and the Group rely on external financing in the form of bank borrowings or bonds. The 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.

### **3.13.1.5.      *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 Company'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 Company generating poor financial performance.

#### **3.13.1.6.      *Risk of IT failure***

In its business, the Company uses advanced IT systems facilitating smooth execution of debt collection processes and valuation of debt portfolios. The key systems used by the Company include the Delfin debt collection platform, the billing system, management information system, contact centre, and the e-KRUK web 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 Company in view of the need to ensure personal data protection.

#### **3.13.1.7.      *Risk connected with related-party transactions***

The Company enters into related-party transactions which may be subject to audit by tax authorities. The main goal of tax audits is to verify whether such transactions are executed on an arm's length basis. There is a risk that tax authorities may question the execution of a transaction on an arm's length basis, which may increase the Company's tax liabilities.

#### **3.13.1.8.      *Risk of negative PR in relation to the Company***

The nature of the Company's business exposes it to the risk of publication of untrue information concerning dealings with the Company or information that is detrimental to its 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 Company 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 KRUK.

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.

### **3.13.2. Risk management system**

The risk management policies applicable at the Company are designed to:

- Identify and analyse the risks to which the Company 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 Company are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the Company. The Management Board is responsible for defining risk management procedures and overseeing their implementation.

Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

#### **3.13.2.1. *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 Company has developed a system for analysing and assessing that risk. The key tools making up the system are as follows:

- Detailed and thorough 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 695 debt portfolios and having carried out around 3,000 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.

#### **3.13.2.2. *Managing the operating risk inherent in the Company's operations***

The Company 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).

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

As at the date of this report, the Company holds no single debt whose non-payment could have a material adverse effect on the Company's liquidity, but no assurance can be given that such a situation will not occur in the future.

### **3.13.2.4.      *Managing liquidity risk***

The Company's and 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 Company and the Group include:

- Regular monitoring of cash needs and spending;
- Flexible management of cash flows between the Group entities;
- Conducting debt management activities on a continuous basis, ensuring continuous cash inflow;
- Ensuring 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.

### **3.13.2.5.      *Managing the risk of loss of experienced management staff***

With a view to retaining its experienced staff, the Company takes initiatives focused on development of human resources and providing its employees with optimum working conditions. The Company 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.

### **3.13.2.6.      *Managing the risk of IT systems' failure***

The Company 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.

### **3.13.2.7.      *Managing the risk connected with related-party transactions***

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

### **3.13.2.8.      *Managing the risk of negative PR in relation to the Company***

The Company makes every effort to build a positive image of the debt management industry, the Company, 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. OPERATIONAL AND FINANCIAL REVIEW

### 4.1. Basis of preparation of the full-year separate financial statements

The Company's separate 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 all the reporting periods presented in the separate financial statements.

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

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

Since 2014, the Company 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 at initial recognition minus 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.

### 4.2. General information about current and expected financial position

There are no material risks to the Company's and the Group's current and expected financial position. KRUK S.A. is the parent of the KRUK Group and its financial and operating performance should be evaluated in the context of performance generated by the entire KRUK Group, after eliminating the transactions between the individual Group members which – from the Group's point of view – are neutral for its performance. The net profit generated by the Company on a separate basis in 2017 was



PLN 29.5m. A strong contribution to this figure came from finance income, including dividends paid to KRUK S.A. by other KRUK Group companies (neutral to the performance of the Group as a whole).

### 4.3. Revenue by product

The main sources of revenue for the Company are credit management services and debt purchase activities.

In 2017, KRUK generated revenues in the total amount of PLN 143m, which is 8% higher than in 2016. The revenue growth was mainly driven by higher revenue from debt recovery services, which fell by 2%. At the same time, revenue from purchased debt portfolios fell by 7% while other revenue went up 106%.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit. In the presentation of data by geographical segments, revenue is recognised based on the location of debt collection offices.

**Table 16. Revenue by product and market**

| For the year ended December 31st 2016     | Poland        | Romania       | Other foreign markets | TOTAL            |
|---|---------------|---------------|-----------------------|------------------|
| <b>Revenue</b>                            | <b>84,974</b> | <b>44,666</b> | <b>2,486</b>          | <b>132,126</b>   |
| Purchased debt portfolios                 | 5 569         | 43,695        | 1 445                 | 50,709           |
| Collection services                       | 67,029        | -             | -                     | 67,029           |
| Other products                            | 12,376        | 971           | 1 041                 | 14,388           |
| <b>Direct and indirect costs</b>          |               |               |                       | <b>(105,095)</b> |
| Purchased debt portfolios                 | -             | -             | -                     | (16,751)         |
| Collection services                       | -             | -             | -                     | (78,963)         |
| Other products                            | -             | -             | -                     | (9,381)          |
| <b>Gross profit</b>                       |               |               |                       | <b>27,031</b>    |
| Purchased debt portfolios                 | -             | -             | -                     | 33,958           |
| Collection services                       | -             | -             | -                     | (11,934)         |
| Other products                            | -             | -             | -                     | 5,007            |
| Administrative expenses                   | -             | -             | -                     | (64,497)         |
| Depreciation/amortisation                 | -             | -             | -                     | (9,115)          |
| Other income                              | -             | -             | -                     | (3,192)          |
| Finance income/costs                      | -             | -             | -                     | 68,102           |
| Profit before tax                         | -             | -             | -                     | 18,328           |
| Income tax                                | -             | -             | -                     | 14,116           |
| <b>Net profit</b>                         | <b>-</b>      | <b>-</b>      | <b>-</b>              | <b>4,212</b>     |
| <b>Carrying amount of debt portfolios</b> | <b>9,709</b>  | <b>30,377</b> | <b>3,202</b>          | <b>43,288</b>    |

Source: Company

| For the year ended December 31st 2017     | Poland        | Romania       | Other foreign markets | TOTAL            |
|---|---------------|---------------|-----------------------|------------------|
| <b>Revenue</b>                            | <b>96,629</b> | <b>37,169</b> | <b>8,924</b>          | <b>142,722</b>   |
| Purchased debt portfolios                 | 11,476        | 34,645        | 1,265                 | 47,386           |
| Collection services                       | 65,660        | -             | -                     | 65,660           |
| Other products                            | 19,494        | 2,524         | 7,659                 | 29,677           |
| <b>Direct and indirect costs</b>          |               |               |                       | <b>(113,732)</b> |
| Purchased debt portfolios                 | -             | -             | -                     | (14,066)         |
| Collection services                       | -             | -             | -                     | (97,197)         |
| Other products                            | -             | -             | -                     | (2,469)          |
| <b>Gross profit</b>                       |               |               |                       | <b>28,991</b>    |
| Purchased debt portfolios                 | -             | -             | -                     | 33,320           |
| Collection services                       | -             | -             | -                     | (31,538)         |
| Other products                            | -             | -             | -                     | 27,209           |
| Administrative expenses                   | -             | -             | -                     | (79,463)         |
| Depreciation/amortisation                 | -             | -             | -                     | (11,684)         |
| Other income                              | -             | -             | -                     | 2,085            |
| Other expenses (unallocated)              | -             | -             | -                     | (4,951)          |
| Finance income/costs                      | -             | -             | -                     | 125,752          |
| Profit before tax                         | -             | -             | -                     | 60,729           |
| Income tax                                | -             | -             | -                     | (31,215)         |
| <b>Net profit</b>                         | <b>-</b>      | <b>-</b>      | <b>-</b>              | <b>29,514</b>    |
| <b>Carrying amount of debt portfolios</b> | <b>6,551</b>  | <b>25,428</b> | <b>2,495</b>          | <b>34,474</b>    |

Source: Company

#### 4.4. Structure of assets and liabilities in the Company's statement of financial position

Table 5. Structure of assets and liabilities in the statement of financial position

As at December 31st 2017

PLN '000

|                                     |   | 31.12.2017       | 31.12.2016       |
|-------------------------------------|---|------------------|------------------|
| <b>Assets</b>                       |   |                  |                  |
|                                     | Cash and cash equivalents                               | 16,917           | 162,936          |
|                                     | Trade receivables from related entities                 | 45,207           | 38,883           |
|                                     | Trade receivables from other entities                   | 2,881            | 3 301            |
|                                     | Investments   | 172,297          | 162,976          |
|                                     | Other receivables                                       | 9,276            | 15,292           |
|                                     | Inventories   | 171              | 188              |
|                                     | Property, plant and equipment                           | 19,062           | 21,019           |
|                                     | Intangible assets                                       | 15,183           | 13,261           |
|                                     | Investments in subsidiaries                             | 2,849,889        | 1 940 043        |
|                                     | Other assets  | 4,133            | 4 402            |
| <b>Total assets</b>                 |   | <b>3,135,017</b> | <b>2 362 301</b> |
| <b>Equity and liabilities</b>       |   |                  |                  |
| <b>Liabilities</b>                  |   |                  |                  |
|                                     | Hedge derivatives                                       | -7,262           | -                |
|                                     | Trade and other payables                                | 593,741          | 39,152           |
|                                     | Employee benefit obligations                            | 17,673           | 19,742           |
|                                     | Income tax payable                                      | 14,401           | 3 514            |
|                                     | Liabilities under borrowings and other debt instruments | 1,786,487        | 1 594 626        |
|                                     | Deferred tax liability                                  | 13,971           | 4 018            |
| <b>Total liabilities</b>            |   | <b>2,419,011</b> | <b>1 661 051</b> |
| <b>Equity</b>                       |   |                  |                  |
|                                     | Share capital   | 18,808           | 18,744           |
|                                     | Share premium   | 293,581          | 288,326          |
|                                     | Cash flow hedging reserve                               | 7,262            | -                |
|                                     | Other capital reserves                                  | 86,806           | 76,659           |
|                                     | Retained earnings                                       | 309,548          | 317,522          |
| <b>Total equity</b>                 |   | <b>716,005</b>   | <b>701,251</b>   |
| <b>Total equity and liabilities</b> |   | <b>3,135,017</b> | <b>2 362 301</b> |

Source: Company

#### 4.5. Cash flows

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

The main sources of the Company's operating cash flows are related to changes in purchased debt portfolios, disclosed under Movements in purchased debt portfolios. Below are presented details of cash flows related to expenditure on debt portfolios and cash recoveries from debtors.

**Table 6. Value of purchased debt portfolios, PLN '000**

|  |               |
|--|---------------|
| <b>Value of purchased debt portfolios as at Jan 1 2017</b> | 43,288        |
| Cash recoveries  | (53,288)      |
| Value of property  | (579)         |
| Revenue from debt purchase (interest and revaluation)      | 45,054        |
| <b>Value of purchased debt portfolios as at Jan 1 2016</b> | <u>34,474</u> |

*Source: Company*

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

#### **4.6. Material off-balance sheet items by counterparty, subject matter and value**

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

#### **4.7. Financial ratios**

An analysis of the Company's financial ratios does not provide an accurate picture of the Company's performance as KRUK's business relies on the operations of the entire Group. Therefore, the Company's performance should be assessed based on and in the context of the ratio analysis for the entire KRUK Group.

#### **4.8. Explanation of differences between actual financial performance and previously published forecasts**

KRUK S.A. did not publish any financial forecasts for 2017.

#### **4.9. Financial instruments**

##### **4.9.1. Use of financial instruments**

The Company 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 Company under debt assignment agreements for prices lower than the nominal value of the debt);
- loans and receivables (financial assets with determined or determinable payments, but not listed on any active market; Loans and receivables include cash and cash equivalents, trade receivables and debt portfolios purchased in or after 2014.

The Company holds the following financial liabilities other than derivative instruments: borrowings, debt securities, 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 90 from BZ WBK and will pay EUR 20.6 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 expire 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 expire on May 4th 2022.

## Credit risk

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

## Liquidity risk

Liquidity risk is the risk of potential difficulties that the Company and the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets.

## Market risk

Market risk is related to changes in such market factors as foreign exchange rates, interest rates or stock prices, which affect the Group's performance or the value of financial instruments it holds.

## 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 the Polish złoty. 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 złoty 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.

#### **4.9.2. Objectives and methods of financial risk management**

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

**Table 19. Assets relating to credit risk**

*PLN '000*

|  | <b>01.01.2018</b> | <b>31.12.2016</b> |
|--|-------------------|-------------------|
| Financial instruments at fair value through profit or loss | 33,334            | 41,211            |
| Financial assets measured at amortised cost                | 1,140             | 2,077             |
| Loans  | 114,584           | 112,908           |
| Receivables  | 57,365            | 57,476            |
|  | <b>206,422</b>    | <b>213,671</b>    |

*Source: Company*

#### **Credit risk**

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

The Company advances loans to Group entities over which it exercises control. The Company also advances cash loans to natural persons who previously repaid their debts towards the Group companies or are consistently repaying such debts. The Company has defined a set of information required to assess a borrower's creditworthiness.

## 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 Company and its subsidiaries to a risk of loss or impairment of its reputation.

Liquidity risk management tools used at the Company and 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.

## Market risk

The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits while seeking to optimise the rate of return 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.

### 4.9.3. Assessment of financial resources management

In the opinion of the Management Board, there are no significant risks to the Company's current or future financial position related to financial resources management. The Company is able to control and service its debt and manages its financial resources in a prudent manner. For detailed information, see Note 27 to the financial statements.

## 5. CORPORATE GOVERNANCE

### 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-nwestora/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>).

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: <https://pl.kruk.eu/relacje-inwestorskie/o-spolce#dobre-praktyki-spek-notowanych-na-gpw>.

#### 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 notes that the Company has established within its organisational structure a separate internal audit unit, which is objective,

independent and impartial, reports directly to the President of the Management Board, and also has the possibility of reporting directly to the audit committee in accordance with principle III.Z.2., however, the principle 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, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular using real-life 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. 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 70. 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: Company

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

**Table 21. 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: Company

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at February 27th 2017.

**Table 22. 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: 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, discontinue 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. 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 disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association (the "2015–2019 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 on all trading days 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 for 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 Scheme.

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

On August 27th 2016, the Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 1 Subscription Warrants for 2015 under the 2015–2019 Scheme. 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 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 Scheme. The resolution was approved by the Supervisory Board on August 7th 2017. By its Resolution of August 10th 2017, the Company's Management Board determined the list of Management Board members eligible to acquire Tranche 2 Subscription Warrants for 2016. On this basis, the Supervisory Board invited the eligible Management Board members to acquire Tranche 2 Subscription Warrants under the 2015–2019 Scheme. On August 27th 2017, 50,480 Subscription Warrants were delivered to the eligible Management Board members.

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

### 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 Kułton | 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 Zasępa    | Member of the Management Board            | 13,165  |

Source: Company

## 5.4. Dividend policy

### 5.4.1. Historical data on dividend payments

Information on dividend payments in the last five financial years is presented in Table 27.

Table 23. Historical information on dividends paid out to KRUK S.A. shareholders

| Profit for the year      | 2011 | 2012 | 2013 | 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         |

Source: Company

For the calendar of events related to dividend payment in 2017, see Table 28.

Table 24. Calendar of events related to dividend payment in 2017

| Date            |   |
|-----------------|---|
| 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   |

Source: Company

In the reporting period and as at the date of authorisation of this report, KRUK S.A. received a total of PLN 34.0m, PLN 32.5m and PLN 5.1m as profit distributions from SeCapital S.à r.l., a Luxembourg-based subsidiary, from the subsidiary InvestCapital Ltd., and from Kancelaria Prawna Raven P. Krupa sp. k., respectively. Kancelaria Prawna Raven P. Krupa 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.

### 5.4.2. 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.



## 5.5. Governing bodies

### [G4-34]

#### 5.4.1. Management Board

##### 5.5.1.1. *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 25. Composition of the Management Board of KRUK S.A. in 2017

| Name and surname | Position                                  |
|------------------|---|
| 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            |

Source: Company

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.

##### 5.5.1.2. *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.

#### ***5.5.1.3. Shares in the Company and in the Company's related entities held by Management Board members***

Table 36 presents Company shares or rights to Company shares held by Management and Supervisory Board members as at January 1st 2017.

**Table 26. KRUK S.A. shares held by Management and Supervisory Board members as at January 1st 2017**

| <b>Name and surname</b> | <b>Position</b>                           | <b>Number of shares held</b> | <b>Total par value (PLN)</b> |
|-------------------------|---|------------------------------|------------------------------|
| Piotr Krupa             | CEO and President of the Management Board | 1,919,841                    | 1,919,841                    |
| Agnieszka Kułton        | 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 Zasępa           | Member of the Management Board            | 35,383                       | 35,383                       |
| Tomasz Bieske           | Member of the Supervisory Board           | 642                          | 642                          |

Source: Company

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 Kułton, Michał Zasępa, and Tomasz Bieske, as described below.

On March 20th 2017, the Company received a notification from Agnieszka Kułton, given under Article 19 of the MAR. According to the notification, Ms Kułton 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 Kułton, given under Article 19 of the MAR, to the effect that on May 16th 2017 Agnieszka Kułton had sold, in ordinary session trades on the Warsaw Stock Exchange, 6,000 shares in KRUK S.A. for the average price of PLN 306.15 per share.

On July 20th 2017, the Company received a notification from Agnieszka Kułton, given under Article 19 of the MAR, to the effect that on July 19th 2017 Agnieszka Kułton 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 27. 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 Kułton | 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                 |

Source: Company

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

**Table 28. 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 Kułton | 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                 |

Source: Company

#### ***5.5.1.4. 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 29. Remuneration of the Management Board members in 2017**

| Name and surname | Remuneration from the Company in 2017 | Additional benefits* from the Company in 2017 | Remuneration from the subsidiaries in 2017 | Additional benefits* from the subsidiaries for 2017 |
|------------------|---------------------------------------|---|--|---|
|                  | (PLN '000)                            |   | (PLN '000)                                 |   |
| Piotr Krupa      | 2400                                  | 6.18  | -  | -   |
| Agnieszka Kułton | 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 30. 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 |
|------------------|---------------------------------------|---|--|--|
|                  | (PLN '000)                            |   | (PLN '000)                                 |  |
| Piotr Krupa      | 1507                                  | 6.56  | -  | -  |
| Agnieszka Kułton | 807                                   | 6.34  | 11.69                                      | -  |
| Urszula Okarma   | 807                                   | 5.20  | 18.00                                      | -  |
| Iwona Słomska    | 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.

#### 5.4.2. Supervisory Board

##### *5.5.1.5. 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 31. Composition of the Supervisory Board of KRUK S.A. in 2017**

| <b>Name and surname</b>     | <b>Position</b>                   |
|-----------------------------|-----------------------------------|
| 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.

#### **5.5.1.6. 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 to the acquisition or disposal of the Company's assets with a value exceeding 15% (fifteen percent) 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 (five hundred thousand złoty);
- 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 (one million złoty) 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 (two hundred thousand złoty) 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 (five million złoty) 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.

#### 5.5.1.7. 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 5.5.1.3 – Shares in the Company and in its related entities held by the Management and Supervisory Board members.

#### 5.5.1.8. 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 40 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 32. Remuneration of the Supervisory Board members**

| Surname, first name   | Remuneration from the Company<br>for 2016 | Remuneration from the Company<br>for 2017 |
|-----------------------|---|---|
|                       | (PLN '000)                                | (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                                     |
| Stępnia Piotr         | 186.1                                     | 197.83                                    |
| Wancer Józef          | 139.0*                                    | 98.91                                     |

Source: Company

\*Remuneration for the period from January 1st 2016 to May 8th 2016 was payable in the euro (in the total amount of EUR 76.88 thousand), And for the period from May 9th 2016 to December 31st 2016 – in Polish złoty

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 an additional benefit in the amount of 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.

### **5.5.1.9.      *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.

#### **Audit Committee**

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 Company's 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 Stępnia – 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. 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 – 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 – 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.



### 5.4.3. 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.

The 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 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' s 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.

## **5.6. 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.

## **5.7. 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.

## 6. NON-FINANCIAL INFORMATION

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. The statement contains non-financial information about KRUK S.A. for the period from January 1st to December 31st 2017, and forms an integral part of the Directors' Report on the Company's operations.

[\[G4-28\]](#)

This statement is the first non-financial statement published by the Company [\[G4-22\]](#)[\[G4-23\]](#)[\[G4-29\]](#)

The Company will publish non-financial information on an annual basis. [\[G4-30\]](#)

Contact person for questions regarding the report: Agnieszka Salach, [agnieszka.salach@kruksa.pl](mailto:agnieszka.salach@kruksa.pl)

[\[G4-31\]](#)

### Organisation's values

KRUK S.A. 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 Company 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 KRUK S.A. and the entire 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 norms and legal rules requiring that liabilities incurred must be settled.*

The Company's values and culture are of great importance to the organisation. To protect them, KRUK has introduced:

- 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.

## Key values and ethical principles in place at KRUK S.A.

| client  | trading partner   | shareholder  | employees  |
|---|---|--|--|
| <ul style="list-style-type: none"> <li>• We treat debtors with respect.</li> <li>• We help people escape the debt trap.</li> <li>• We ensure personal data protection.</li> </ul> | <ul style="list-style-type: none"> <li>• We do not make promises we can't keep.</li> <li>• We approach our clients' needs on a case-by-case basis.</li> <li>• We respect our competitors.</li> <li>• We maintain the confidentiality of information.</li> <li>• We avoid conflicts of interest.</li> <li>• We follow transparency and integrity principles in our business.</li> <li>• We strive to build long-term and lasting relationships.</li> </ul> | <p>In communication with shareholders, the following are critical to us:</p> <ul style="list-style-type: none"> <li>• Truth</li> <li>• Comprehensiveness</li> <li>• Continuity</li> <li>• Promptness</li> <li>• Understanding</li> </ul> | <ul style="list-style-type: none"> <li>• We respect all our employees' opinions.</li> <li>• We take care to protect the Company's reputation.</li> <li>• We build good rapport within the Group.</li> <li>• We help each other.</li> <li>• We are tolerant.</li> <li>• We build relations on mutual respect and partnership.</li> <li>• We constantly improve our qualifications.</li> </ul> |

## Organisational culture at KRUK S.A.

In the second half of 2016, KRUK S.A., 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 in correspondence with the values observed at the Company and the Group. The study involved 1,541 employees of the KRUK Group, including employees of KRUK S.A.

The results showed that the organisational culture of KRUK S.A. is based on partnership, collectivism, and femininity. This means that the Company's employees:

- 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.

KRUK S.A.'s organisational culture manifests itself in the Company's mission, values, the Internal Mediation Policy, and the Diversity Charter signed by the Company. 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. By implementing this tool, an organisation commits to working towards social cohesion and equality. KRUK S.A. plans to carry out more organisational culture studies in 2018. [\[G4-15\]](#) [\[G4-16\]](#)

## **We comply with social norms and legal rules**

KRUK S.A. 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.

In Poland, KRUK S.A. is a member of such organisations as:

- Conference of Financial Companies in Poland
- Polish Association of Listed Companies

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 KRUK takes 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.



# CERTYFIKAT AUDYTU ETYCZNEGO ZA ROK 2016

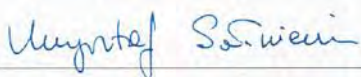
nr 53/2017

W dniu 15 marca 2017 roku Komisja Etyki zatwierdziła raport  
z etycznego audytu wewnętrznego i potwierdziła, że

**KRUK S.A.**

jest w gronie Członków KPF w pełni akceptujących zobowiązania  
wynikające z przyjętych ZASAD DOBRYCH PRAKTYK

Certyfikat zachowuje ważność do 31 marca 2018 roku



Krzysztof Sołkiewicz  
Przewodniczący Komisji Etyki



Andrzej Roter  
Prezes Zarządu



Gdańsk, dnia 15 marca 2017 r.

It should be added that 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 Company's operations in 2017. They are also the result of the Company's dialogue with various stakeholders. [\[G4-33\]](#)

The aspects defined by KRUK S.A. as material include the following:

- I. With regard to economic indicators:
  - 1) Economic performance
  - 2) Market presence
  - 3) Indirect economic impacts
  - 4) Procurement practices
- II. With regard to environmental performance indicators:
  - 1) Materials
  - 2) Energy consumption
  - 3) Emissions
- III. With regard to society performance indicators:
  - 1) Employment
  - 3) Occupational health and safety
  - 4) Training and education
  - 5) Diversity and equal opportunities
  - 6) Non-discrimination
  - 7) Grievance mechanisms for human rights
  - 9) Anti-corruption
  - 10) Compliance with regulations
  - 11) Product and service labelling
  - 12) Marketing Communications
  - 13) Compliance with regulations concerning marketing communications

[\[G4-19\]](#) [\[G4-21\]](#) [\[G4-27\]](#)

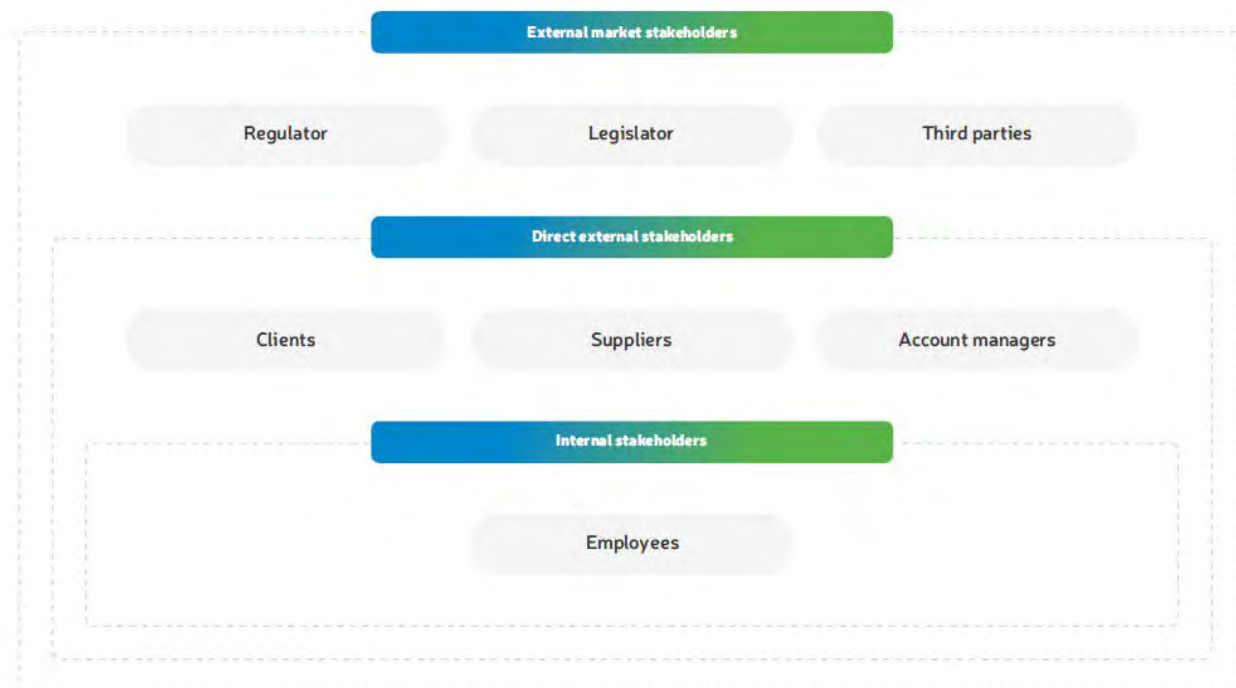
## Material stakeholders

Based on its business activities conducted so far, KRUK S.A. has identified key stakeholder groups. Those groups, both in terms of pursuit of the Company's business strategy and its corporate social responsibility, can affect each other. To prepare this Non-Financial Statement for 2017, KRUK S.A. has identified material economic, environmental, and social aspects. Meetings were held with its internal stakeholders, namely the employees, management staff, and the 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]

KRUK S.A. reviewed the materiality of stakeholder groups 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.

## KRUK S.A. conducts a dialogue with key stakeholders

| 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.<br>Participation in 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 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 their workplace.   | Ongoing                              |
|                                      | Employee Forum  | Four meetings in calendar year       |
|                                      | Employee surveys, including surveys of satisfaction with the annual integration event organised for the Company's employees.  | 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                            |

[G4-18] [G4-20]

The Company identified and selected external stakeholder groups and social aspects also in 2017 on the basis of:

- 'The Financial Behaviour of Europeans' survey, carried out in September 2016 on several markets, including Poland, using the CATI method. The survey involved, among others, one thousand randomly selected people from Poland.
- A satisfaction survey among KRUK S.A.'s trading partners, carried out between April 4th and July 11th 2017 by means of surveys and in-depth interviews on 36 persons from 28 companies working with the KRUK Group.



- A satisfaction survey carried out in 2017 among KRUK S.A.'s clients, using telephone questionnaires with closed and open-ended questions (approximately 20,000 participants).

[\[G4-25\]](#) [\[G4-26\]](#) [\[G4-27\]](#)

## 6.1. ECONOMIC CATEGORY

KRUK S.A. is the leader of the debt management market in Poland. In its vision, together with the Group, the Company 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 Company'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 Company places particular importance on regular examination of the needs, expectations and satisfaction of its customers and trading partners.

### 6.1.1 Economic performance

Company's results should be analysed from a Group's perspective. The table with results is in Financial report of KRUK Group for 2017. [\[G4-EC1\]](#)

### 6.1.2 Market presence

The Company 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 KRUK employees regardless of their gender, age, nationality or other differences.

Salaries of men and women in the same positions are on a par.

#### Ratio of standard entry level salary at KRUK S.A. by gender compared to minimum pay

| <a href="#">KRUK S.A.</a> |      |
|---------------------------|------|
| women                     | 214% |
| men                       | 281% |

[\[G4-EC5\]](#)

KRUK 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, including employees of KRUK S.A. Importantly, the Polish Company also employs people of other nationalities than Polish. [\[G4-EC6\]](#)

### 6.1.3 Indirect economic impacts

Company's results should be analysed from a Group's perspective. [\[G4-EC7\]](#)

### 6.1.4 Procurement practices

As part of its operations, KRUK cooperates with numerous local suppliers. They supply various goods and services necessary for proper operation of not only KRUK S.A. but also of the entire Group 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 KRUK S.A.

In 2017, KRUK S.A. carried out 103 procurement processes.

#### Number of KRUK S.A.'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%   |

[\[G4-EC9\]](#)

KRUK cooperates with external suppliers of services and goods based on the following scheme:

1. Supplier selection based on previously prepared service or product criteria and after checking solutions available on the market
2. Procurement approval in line with the Group's expenditure approval processes
3. Contract/order execution
4. Sending the order to the supplier or performance of the contract
5. Delivery and collection
6. Invoice
7. Payment approval
8. Payment
9. Annual supplier assessment.

Work on updating the Procurement Policy and Procurement Procedure was completed at KRUK S.A. in late 2017. The objective of KRUK S.A.'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 Company will be able to assess its partners in terms of compliance with environmental, social and economic ethics,
- financial and technical assessment of suppliers.

**KRUK selects suppliers** by way of tenders or based on competitive bids.



Procurement processes are carried out in compliance with the rules of fair competition, i.e. impartiality, ethical approach to selecting the best bid, avoiding conflicts of interest and preventing all forms of corruption and bribery.

Integrity and mutual respect play an important role also in cooperation with suppliers. To ensure clarity and transparency, the Company has put in place a Misconduct Prevention Policy, Conflict of Interests Management Policy, and a Gift Policy. [\[G4-EC9\]](#)

## 6.2. CATEGORY: ENVIRONMENTAL

KRUK S.A.'s business does not have a direct impact on the natural environment as it consists in provision of services. However, the Company has identified areas which may have a negative environmental impact, including primarily consumption of energy and paper and exhaust gases produced by company cars used, among others, by field consultants in their daily activities.

KRUK S.A. contacts its clients mainly by letter, which is why it consumes large quantities of paper. In response to modern technologies and its client expectations, KRUK makes every effort to reduce its consumption. 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

|                            |        |
|----------------------------|--------|
| Paper consumption [tonnes] | 224.74 |
| Disposal [tonnes]          | 221.76 |

[\[G4-EN1\]](#)

### 6.2.2 Energy consumption

#### ENERGY EFFICIENCY

|  |          |
|--|----------|
| TOTAL CONSUMPTION OF ELECTRICITY [MWh]                       | 3,962.26 |
| Total consumption of energy from non-renewable sources [MWh] | 6,937.97 |
| including gasoline [MWh]                                     | 799.69   |
| including diesel oil [MWh]                                   | 6,137.53 |
| including natural gas [MWh]                                  | 0.75     |
| Gasoline [m3]  | 86.16    |
| Diesel oil [m3]  | 627.81   |
| Natural gas [m3]   | 0.08     |

[\[G4-EN3\]](#)

In 2017, employees of KRUK S.A and the KRUK Group used 477 company cars, which is also reflected in the below table showing carbon dioxide emissions.

### 6.2.3 Emissions

#### CO<sub>2</sub> EMISSIONS

|  |                             |
|--|-----------------------------|
| CO <sub>2</sub> emissions from electricity purchased for the building's needs [tonnes]                         | 3,294.62 tCO <sub>2</sub> e |
| CO <sub>2</sub> emissions related to transport and fuel combustion in the engines of company vehicles [tonnes] | 1,838.00 tCO <sub>2</sub> e |
| Total CO <sub>2</sub> emissions at the organisation  | 5,132.62 tCO <sub>2</sub> e |

[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 and gender

| 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        | 109                         | 0.07                              | 4                           | 0,00                              | 98                             | 0.06                                 | 211        |
| Men          | 80                          | 0.05                              | 3                           | 0,00                              | 50                             | 0.03                                 | 133        |
| <b>Total</b> | <b>189</b>                  | <b>1.56</b>                       | <b>7</b>                    | <b>0.06</b>                       | <b>148</b>                     | <b>1.22</b>                          | <b>344</b> |

Total number and rate of employee turnover during the reporting period by age group and gender

| 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        | 75                                     | 0.05                                | 10                                     | 0.01                                | 108                                       | 0.07                                   | 193        |
| Men          | 42                                     | 0.03                                | 5                                      | 0,00                                | 56  | 0.03                                   | 103        |
| <b>Total</b> | <b>117</b>                             | <b>0.07</b>                         | <b>15</b>                              | <b>0.01</b>                         | <b>164</b>                                | <b>0.1</b>                             | <b>296</b> |

[G4-LA1]

KRUK S.A. 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 Company offers them:

- the possibility of using 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 Company 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 meetings of KRUK S.A. employees;
- on the Children's Day in 2017, employees received gifts (pre-paid gift cards) for their children, with the pre-payment amount set in accordance with the Company's internal regulations.

In 2017, at the request of KRUK S.A. employees, the rules on flexible working hours were modified and work from home was permitted. As of April 1st 2017, the Company employees may:

- work flexible hours, starting between 6 am and 11 am and ending after having worked such number of hours as specified in their employment contracts;
- work out of office occasionally, in accordance with internally agreed rules and conditions.

[\[G4-LA2\]](#)

KRUK S.A. cares about working parents. It undertakes measures to help employees maintain work-life balance and respects the rights of parents. In the Company's head office in Wrocław there is a room for breastfeeding mothers. Fathers are given paternity leave on request.

In 2016 and 2017, the Company did not aggregate data on return to work and retention rates after parental leave. This data will be presented by the Company in the next reporting period. [\[G4-LA3\]](#)

### 6.3.2 Occupational Health and Safety

At KRUK S.A. we pay special attention to health and safety at work. In 2017, the Company organised a Health Day for its employees.

As most of the Company's employees have desk jobs, they may suffer from spine, eye or wrist conditions, so the Group takes advantage of such prevention occasions to discuss important health issues.

The Company 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. That is why in 2017 KRUK S.A. prepared an instructional video on how to handle an attack by a client's dog.

In 2017, KRUK and the Rescue Centre of 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 and KRUK S.A. 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 – 8, of which:

- men: 7
- women: 1

### Accident rates (all accidents at work in 2017):

#### a) severity rate:

- men: 56.14
- women: 38

#### b) 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

The number of reported accidents at the KRUK Group and thus at KRUK S.A. decreased in 2017 relative to 2016.

KRUK S.A.'s system for reporting accidents and recording accident data covers all locations where the Company operates. Accidents at work are reported to KRUK S.A.'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 and 2017, KRUK S.A. employees 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 team fosters the growth of the entire organisation. Constant improvement of competences and qualifications of the Company's employees is therefore an important investment in building an innovative and committed team. KRUK employees 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.

#### 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                       |

*This table contains data for the entire KRUK Group, including KRUK S.A., but does not take into account the average number of e-learning hours per employee, or external training which employees receive within specific areas.*

[\[G4-LA9\]](#) [\[G4-LA10\]](#) [\[G4-LA11\]](#)

The Company employees may 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 Company also has a management skills development programme, which supports the development of skills of the management staff.

In mid-2016, the Company 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 dedicated to the management staff, which are combined with traditional training.

One of the e-learning courses concerns employee reviews, which is related to KRUK S.A.'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.

#### 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 S.A.        | 99.6%   | 59%   | 41% |
| Managerial staff | 12%   | 58%   | 42% |
| Other employees  | 88%   | 60%   | 40% |

[\[G4-LA11\]](#)

### 6.3.5 Human rights

In 2017, KRUK devoted 89 training hours to train its employees in procedures and regulations that promote respect for human rights. These were mainly induction training courses about KRUK S.A.'s values. Of the 370 newly hired persons, 100% received this training.

The training was also delivered to 25 persons who were hired in the fourth quarter of 2016 and did not undergo their induction training until 2017. [\[G4-HR2\]](#)

### 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 KRUK S.A.'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 Company and the Group to unlock the potential of all their employees and helps prevent any forms of discrimination or bullying in the workplace.

### How does KRUK S.A. manage diversity and ensure equal opportunities?

- The Company has career and development paths that every employee can learn about at any time.
- The Company operates 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 Company runs a programme where it has defined the precise terms of such co-financing.

**Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity**



Percentage of individuals within the organisation's supervisory bodies (Supervisory Board + Management Board) in each of the following diversity categories:

| Gender       | 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        |   | 0.00%   | 4  | 33.00%   | 4         |
| Men          | 4   | 33.00%  | 4  | 33.00%   | 8         |
| <b>Total</b> | <b>4</b>  |   | <b>8</b>   |  | <b>12</b> |

Age group: under 30 years old, 30 to 50 years old, over 50 years old; minorities.

| 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        | 246                                       | 16.00%  | 32  | 2.00%   | 626  | 41.00%   | 904         |
| Men          | 160                                       | 11.00%  | 53  | 3.00%   | 404  | 27.00%   | 617         |
| <b>Total</b> | <b>406</b>                                |   | <b>85</b>                                 |   | <b>1030</b>                                  |  | <b>1521</b> |

[G4-LA12]

### 6.3.7 Equal remuneration for women and men

The remuneration for women and men in the same positions is comparable at KRUK S.A. Any difference in the overall earnings of women and men may result from the general difference in salaries in the IT department and the call centre, reflecting market reality. A majority of the IT staff at KRUK S.A. 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          | 77.00%   |
| other employees  | 76.00%   |

[G4-LA13]

### 6.3.8 Non-discrimination

At KRUK S.A., 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 Company takes preventive and corrective actions to eliminate and remedy any discrimination incidents in the workplace.

- In addition to the Diversity Charter, which KRUK S.A. 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 at KRUK S.A. They all were investigated and resolved.

[\[G4-HR3\]](#)

### **6.3.9 Human rights grievance mechanisms**

Any grievances concerning an alleged violation of rights and values observed at KRUK S.A. are 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 and KRUK S.A. also have 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 Company's Mediation Policy defines in detail the procedures and steps to be taken to resolve a case amicably.

In the reporting period, the Company 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.

[\[G4-HR12\]](#) [\[G4-11\]](#)

### **6.3.10 Anti-corruption**

In 2017, KRUK S.A. implemented the Misconduct Prevention Policy and the Instruction for Dealing with Suspected Corruption Incidents.

The Company 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.

KRUK S.A.'s anti-corruption measures are also reflected in the Gift Policy. In 2017, no incidents of this nature were reported at KRUK.

[\[G4-HR12\]](#) [\[G4-SO3\]](#)

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 of the KRUK Group 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.

[\[G4-SO4\]](#) [\[G4-SO5\]](#)

### 6.3.11 Product and service labelling

More details are in Directors' Report on the operations of the KRUK Group for 2017.  
In 2017, KRUK's NPS stood at 78%, having increased by 9% in comparison with 2016.  
[\[G4-PR5\]](#)

### 6.3.12 Marketing and PR communications and its compliance with regulations

More details are in Directors' Report on the operations of the KRUK Group for 2017.  
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 noncompliance with the laws and regulations that govern marketing communication, including advertising, promotion, and sponsorship.  
[\[G4-PR7\]](#) [\[G4-PR9\]](#)

## 6.4. GRI Content 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 | 5, 15                                 |                    |
| G4-2                   | Description of key impacts, opportunities, risks  | 28                                    |                    |
| Organisational profile |   |                                       |                    |
| G4-3                   | The name of the organisation  | 4                                     |                    |
| G4-4                   | Primary brands, products, and services  | 10                                    |                    |
| G4-5                   | Location of the organisation's headquarters   | 4                                     |                    |
| G4-6                   | Number of countries where the organisation operates, and names of these countries   | 10                                    |                    |
| G4-7                   | Nature of ownership and legal form  | 4                                     |                    |
| G4-8                   | Markets served, including geographic breakdown, sectors served, and types of customers and beneficiaries  | 10                                    |                    |
| G4-9                   | Scale of the organisation   | 10                                    |                    |
| G4-10                  | Total number of employees by employment type, employment contract and region, broken down by gender   | 5-6                                   |                    |
| G4-11                  | Percentage of employees covered by collective bargaining agreements   | 82                                    |                    |
| G4-12                  | Description of the supply chain   | 74                                    |                    |
| 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 Group   | 28                                    |                    |
| G4-15                  | Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses.                    | 68                                    |                    |
| G4-16                  | Membership of associations, national or international organizations   | 68                                    |                    |
| G4-17                  | Entities included in the consolidated financial statements  | 10                                    |                    |
| G4-18                  | Process of defining the report content  | 72                                    |                    |
| G4-19                  | Identified material aspects of environmental and social impact  | 70                                    |                    |
| G4-20                  | Relevance of identified aspects of the environmental and social impact of the KRUK Group  | 72                                    |                    |

|                                   |   |                |
|-----------------------------------|---|----------------|
| G4-21                             | Limitations of the report regarding material aspects of environmental and social impact outside the organisation  | 70             |
| G4-22                             | Effect of any restatements of information provided in previous reports  | 66             |
| G4-23                             | Changes in relation to previous periods covered by the report regarding the scope and boundaries relating to the engagement of external stakeholders  | 66             |
| Stakeholder Engagement            |   |                |
| G4-24                             | List of stakeholder groups engaged by the organisation  | 71             |
| G4-25                             | Basis for identifying and selecting stakeholders engaged by the KRUK Group  | 73             |
| G4-26                             | The Group's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group  | 73             |
| G4-27                             | Key topics and concerns that have been raised through stakeholder engagement and how the KRUK Group has responded   | 73             |
| G4-28                             | Reporting period  | 66             |
| G4-29                             | Date of most recent previous report (if any)  | 66             |
| G4-30                             | Reporting cycle   | 66             |
| G4-31                             | Contact person  | 66             |
| G4-32                             | GRI Content Index   | 83             |
| G4-33                             | Policy and practice with regard to seeking external assurance for the report  | 70             |
| 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 | 50             |
| G4-38                             | Number and gender of members of the highest management and supervisory body   | 5-6            |
| Ethics                            |   |                |
| G4-56                             | The values of the KRUK Group, its principles, standards and norms of behaviour and ethics   | 69             |
| G4-58                             | Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity  | 82             |
| ECONOMIC INDICATORS               |   |                |
| Aspect: Economic performance      |   |                |
| G4-EC1                            | Direct economic value generated and distributed   | 73             |
| G4-EC                             |   |                |
| Aspect: Market presence           |   |                |
| G4-EC5                            | Ratio of the entry level wage by gender at significant locations of operation to the minimum wage   | 73             |
| Aspect: Indirect economic impacts |   |                |
| G4-EC7                            | Development and impact of infrastructure investments and services supported   | 72             |
| Aspect: Procurement practices     |   |                |
| G4-EC9                            | Percentage of the procurement budget of significant locations of operation spent on local suppliers   | 75             |
| ENVIRONMENTAL INDICATORS          |   |                |
| Aspect: Materials                 |   |                |
| G4-EN1                            | Materials used by weight or volume  | 75             |
| Aspect: Energy consumption        |   |                |
| G4-EN3                            | Energy consumption within the organisation  | 75             |
| G4-EN29                           | Compliance with regulations   | Not applicable |
| Aspect: Emissions                 |   |                |
| G4-EN15                           | Direct greenhouse gas emissions   | 76             |
| G4-EN16                           | Indirect greenhouse gas emissions   | 76             |
| SOCIAL INDICATORS                 |   |                |

|   |  |    |
|---|--|----|
| Aspect: Employment  |  |    |
| G4-LA1  | Total number and rate of new employee hires and employee turnover by age group, gender, and region   | 76 |
| G4-LA2  | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation  | 77 |
| G4-LA3  | Return to work and retention rates of employees who took parental leave, by gender   | 77 |
| Aspect: Occupational health and safety                                  |  |    |
| G4-LA6  | Types of injury, injury rate, occupational diseases, lost day rate, absentee rate and work-related fatalities, by region and gender  | 78 |
| G4-LA7  | Workers with high incidence or high risk of diseases related to their occupation   | 78 |
| Aspect: Training and education  |  |    |
| G4-LA9  | Average hours of training per year per employee by gender and employee category  | 79 |
| G4-LA10   | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings  | 79 |
| G4-LA11   | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category   | 79 |
| Aspect: Diversity and equal opportunities                               |  |    |
| G4-LA12   | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity               | 81 |
| 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   | 81 |
| 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    | 80 |
| G4-HR3  | Total number of incidents of discrimination and corrective actions taken   | 82 |
| Aspect: Grievance mechanisms for human rights                           |  |    |
| G4-HR12   | Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms   | 82 |
| Aspect: Anti-corruption   |  |    |
| G4-SO3  | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified  | 82 |
| G4-SO4  | Communication and training on anti-corruption policies and procedures  | 82 |
| G4-SO5  | Confirmed incidents of corruption and actions taken  | 82 |
| Aspect: Compliance with regulations                                     |  |    |
| G4-SO8  | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations  | 86 |
| Aspect: Product and service labelling                                   |  |    |
| G4-PR5  | Results of surveys measuring customer satisfaction   | 83 |
| 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 | 83 |
| Aspect: Compliance with regulations concerning marketing communications |  |    |

|        |  |    |
|--------|--|----|
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | 83 |
|--------|--|----|

[\[G4-32\]](#)

## 7. OTHER INFORMATION

### 7.1. Court, administration and arbitration proceedings

#### General information

As part of the ordinary course of its business, the Company is a party to court and enforcement proceedings concerning its operations. In 2017, the Company was a plaintiff or participant in 1,008 court proceedings (including bankruptcy cases), where the total value of claims was approximately PLN 95,637,170.34. Furthermore, in 2017, 27,718 enforcement proceedings were pending upon motions filed by the Company, with a total value of claims being enforced of approximately PLN 303,334,613.76. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company.

In 2017, the Company was a defendant in 793 court proceedings, where the total value of claims was approximately PLN 20,757,691.43. They were chiefly proceedings against enforcement instigated in connection with the Company's operating activities involving debt recovery. The Company believes the claims to be without merit and expects them to be dismissed. There are no proceedings pending against the Company 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.

[\[G4-S08\]](#)

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

There were no proceedings pending with the participation of the Company where the value of claims would exceed 10% of the Company's equity.

#### Proceedings with the largest value of claims, below 10% of the Company's equity, concerning the Company's liabilities:

Among proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 26,317,439.97 – was an action for payment brought by Duta Steliana against KRUK S.A., Banca Comerciala Romana and Secapital S.a.r.l. concerning abusive clauses and invalidity of an assignment agreement. The company partly lost the case with respect to the abusive clause, and won the dispute regarding the invalidity of the assignment agreement. The verdict is not legally binding.



### **Proceedings with the largest value of claims, below 10% of the Company's equity, concerning debts owed to the Company**

Among court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 8,090,604.80 – was the bankruptcy case concerning KRUK S.A.'s claims against INTFOR S.A.

## 7.2. Auditors

On June 8th 2017, the Company and KPMG Audyt Spółka z o.o. 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 1,225 thousand (2016: PLN 999 thousand); and the fee for other assurance services – at PLN 236 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.

## 7.3. Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to support 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 2016, the strategy of building the platform supporting operating processes remained unchanged – the Company's internal resources continued the development of the platform, which resulted in the system's improved flexibility and scalability.

## 7.4. Performance of Company shares on the Warsaw Stock Exchange

### 7.4.1. 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%, 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.

**Table 43.8 Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2017 – closing prices**

| Date           | KRUK  | WIG   | mWIG40 |
|----------------|-------|-------|--------|
| Rate of return | 11.1% | 23.2% | 15.0%  |

Source: GPW.pl

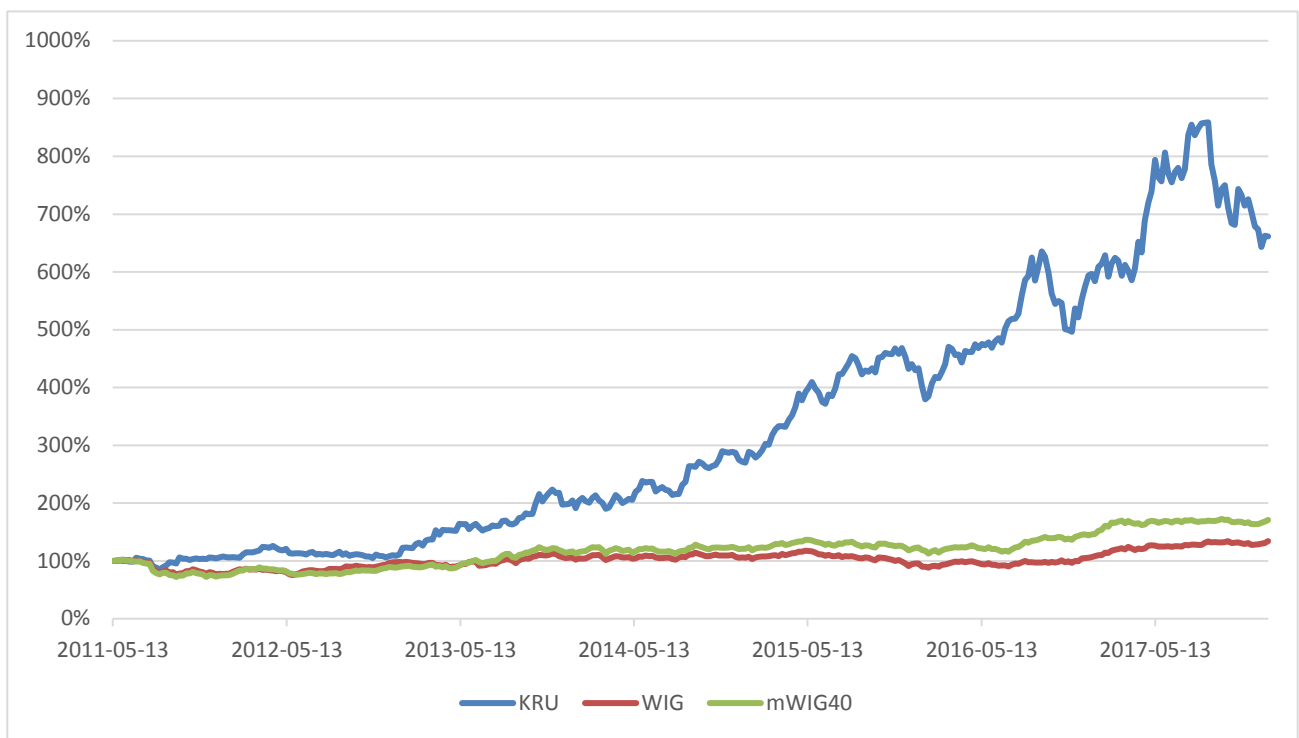
Chart 1. KRUK S.A. stock price against WIG and mWIG40 in 2017 (beginning of the year = 100%)



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

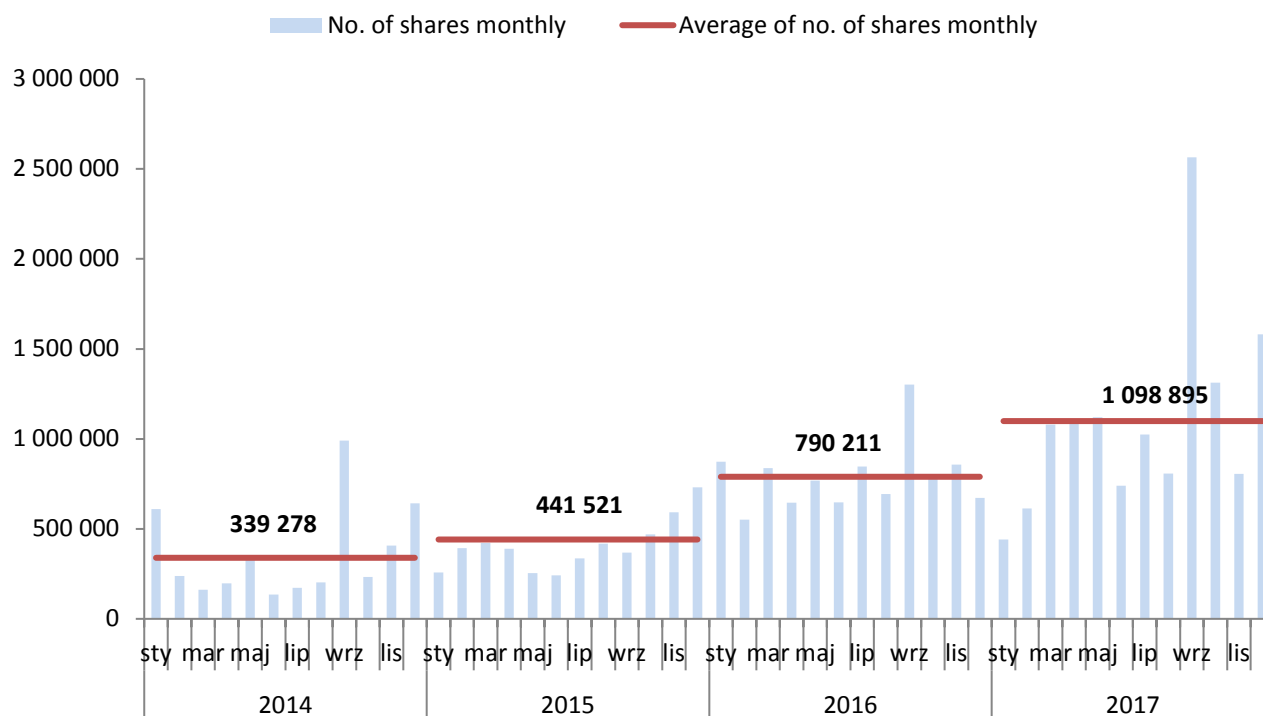


Source: in-house analysis, based on stooq.pl.

#### 7.4.2. 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 the total annual trading volume).

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](http://www.gpw.pl)

## 7.5. 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 below.

### 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 teleconferences 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

The table below lists analysts issuing recommendations on Company stock.

#### Sell-side analysts covering KRUK

| Company        | Analyst           | Contact details                |
|----------------|-------------------|--------------------------------|
| DM BDM         | Maciej Bobrowski  | bobrowski@bdm.pl               |
| DM BZ WBK      | Dariusz Górski    | dariusz.gorski@bzbwk.pl        |
| DM Erste Group | Mateusz Krupa     | mateusz.krupa@erstegroup.com   |
| DM Ipopema     | Łukasz Jańczak    | lukasz.janczak@ipopema.pl      |
| JP Morgan      | Michał Kuzawiński | michal.kuzawinski@jpmorgan.com |



|            |                   |                             |
|------------|-------------------|-----------------------------|
| DM mBank   | Michał Konarski   | michal.konarski@mdm.pl      |
| DM PKO BP  | Jaromir Szortyka  | jaromir.szortyka@pkobp.pl   |
| DM Trigon  | 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.

## 7.6. Glossary of terms

|   |  |
|---|--|
| 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   | EBITDA less revenue from purchased portfolios plus recoveries from purchased portfolios  |
| 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   |
| Second Public Bond Issue Programme                      | The Second Public Bond Issue Programme carried out under the prospectus approved by the Polish Financial Supervision Authority on December 22nd 2014   |
| Kancelaria Prawna RAVEN                                 | Kancelaria Prawna RAVEN P.Krupa Sk. 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 España   | KRUK España S.L. of Madrid, Spain  |
| KRUK Italia   | KRUK Italia S.r.l of Milan, Italy  |
| 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, NS FIZ Bison   |
| GDP   | Gross Domestic Product   |

|  |  |
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| PLN  | Polish złoty   |
| UOKiK President                                | President of the Office of Competition and Consumer Protection   |
| Incentive Scheme                               | An incentive scheme for 2011–2014 implemented by the Company for the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase. |
| 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)  |
| 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   |
| 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  |
| 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   |

SIGNATURES BY MANAGEMENT BOARD MEMBERS

The Directors' Report on the operations of KRUK S.A. 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 Kulon  
Member of the Management Board .....

Iwona Słomska  
Member of the Management Board .....

Michał Zasępa  
Member of the Management Board .....

Wrocław, March 19th 2018



**KRUK S.A.**  
ul. Wotowska 8  
51-116 Wrocław

**tel:** 71 790 28 00  
**fax:** 71 790 28 67  
**e-mail:** [info@kruksa.pl](mailto:info@kruksa.pl)

