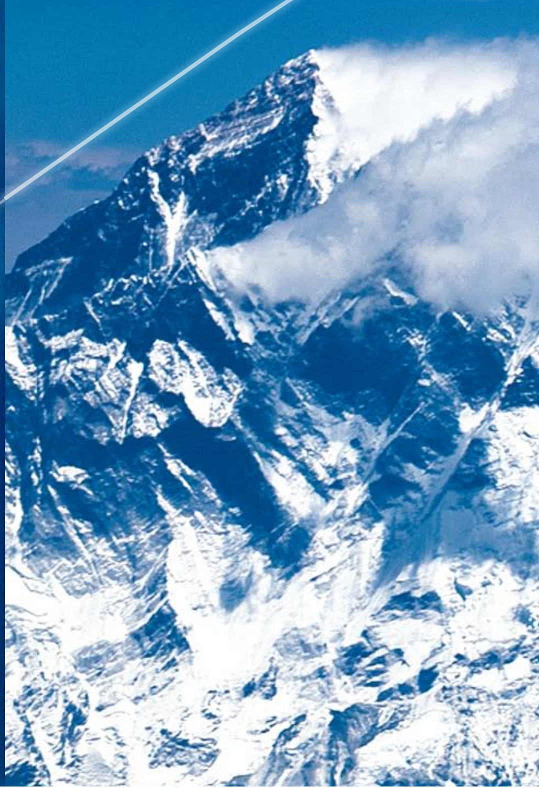
THE KRUK GROUP

Your finances in good shape



DIRECTORS' REPORT ON THE OPERATIONS OF THE KRUK GROUP IN 2011

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MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Our financial performance was a source of great satisfaction to us. We posted record high revenue and the highest ever net profit. The high ROE of 28% at the end of 2011 is also worthy of notice.

Dear Shareholders and Investors!

It is the first time we are publishing an annual report as a public company listed on the Warsaw Stock Exchange. This introduction summarises the key developments at KRUK S.A. in 2011. However, it is not an exhaustive account, so I encourage you to read the entire 2011 Annual Report.

Last year was very successful, in fact it may be considered as one of the best periods in the Company's history. Our financial performance was a source of great satisfaction to us. We posted record high revenue and the highest ever net profit. The high ROE of 28% at the end of 2011 is also worthy of notice. Achieving an above-average return on equity was one of our business objectives and remains a priority for this year, too.

Our performance in 2011 was supported by favourable conditions on the debt management market. I believe we took full advantage of the situation by investing PLN 569m in debt purchases – 193% more than in 2010. We are the unquestionable leader of the debt management market in Poland. According to data collected from 13 Polish debt collection agencies, including 11 companies listed on the WSE and Newconnect, the nominal value of debt portfolios purchased or outsourced in 2011 was PLN 14.7bn. KRUK played the key role on this market, having purchased and accepted for collection debts with an aggregate nominal value over PLN 6.1bn, which is almost four times more than the figure reported by the second largest debt collection company in Poland. We have been actively pursuing our expansion strategy in Romania and the Czech Republic, where we acquired debts with a total nominal value of over PLN 2.6bn.

We also owe our robust financial performance to macroeconomic factors. In 2011, Poland was only mildly affected by the financial crisis unfolding in Europe, and accordingly the Group's performance did not suffer from lower debt repayment rates. On the Romanian market, where the economic slowdown was much more severe than in Poland, the local currency appreciated against the złoty in 2011, which aided the Group's performance.

As at the end of 2011, 11 out of the 14 open-end pension funds held KRUK shares.

Most certainly, 2011 will be remembered as a truly landmark year in KRUK's history. Upon completion of the public offering, we floated our shares on the Warsaw Stock Exchange in May 2011. This was a major step forward, as the status of a public company has enhanced our perception by investors and business partners as a transparent and open company. The public offering provided KRUK with funds needed to further our growth, strengthen the leading position on the Polish debt management market and pursue the strategy of becoming the largest debt collection company in Central and Eastern Europe.

Following the offering, a wide group of institutional and retail investors have become our shareholders. As at the end of 2011, 11 out of the 14 open-end pension funds held KRUK shares – one of the best results among companies not included in the WIG20 index. Foreign investors have also shown interest in our stock. Based on regular communication with the market, we understand that KRUK has been well perceived by foreign fund managers and investment banks. According to equity analysts, both KRUK S.A. and the debt collection market in general offer excellent prospects for the future. During its short presence on the stock exchange, the KRUK stock has already attracted two BUY recommendations, with target prices well above its prices as at the release dates of the relevant analysts' reports.

In fact, last year KRUK made two stock-market debuts: the first one was the floatation of shares on the main market the Warsaw Stock Exchange in May, while the other one took place in November on the Catalyst market and involved the listing of notes. Notes issues are an important source of capital with which to finance debt purchases. Throughout 2011, the Group issued notes with an aggregate nominal value of PLN 291m. To date, all the issues have been successful, which is why we have resolved to take the next step and float our notes on the Catalyst market. In so doing, we enable holders of our debt securities to trade them freely if, for some reason, they choose to sell their notes prior to maturity. In our opinion, our presence on the Catalyst market enhances our positive market image. Further, as the notes are listed on an organised, transparent market, potential investors are more willing to accept lower risk premiums.

These successes, however, would not have been possible without the dedication and perseverance demonstrated by the people responsible for building KRUK's business, that is by our employees working at all levels of the organisation and in all countries where we operate. I am privileged to be the leader of this excellent team. My understanding of this role is unique but effective. I guide my team and lead them through the most important moments, particularly those of breakthroughs and increased challenges. But then, at the right moment, I hand the initiative back to my team, allowing them to turn our vision into reality and pursue the objectives. I know that at such times I can rely on the intellect, spirit, skills and commitment of our top specialists in their respective fields.
As for our expansion on foreign markets, I would like to emphasise the unique position the Group has achieved in building its business abroad. We are one of the few examples of Polish companies with successful foreign operations.

In Romania, we are the leader of the debt management market, and, similarly to Poland, our image there is of an innovator introducing new business methods based on amicable settlement with debtors. Last year in autumn, drawing on our Polish experience, we launched a TV and press campaign in Romania targeted at indebted individuals. The campaign was enthusiastically received by our customers and was seen as a pioneering method of communicating our services on the Romanian market.

The Czech Republic is the latest areas of our foreign expansion. Since the end of 2011, when we started operations in the Czech Republic, we have purchased retail debts with a nominal value of over PLN 410m, which includes debts acquired from two leading banks operating on the market. The Czech market is very attractive, and we believe we can be one of its leaders. The economic crisis has made it increasingly more difficult for the Czech people to meet their liabilities. Thus, the demand for professional debt management services is on the rise. As in Poland and Romania, we intend to implement our original and unique amicable settlement strategy in the Czech Republic.
Concurrently with our foreign expansion, we are developing new business lines, which will be an additional driver of the KRUK Group's future growth. These are the ERIF BIG Debtor Register and the Novum lending business.

The provision of credit information services is a very promising area of business. On all developed markets, credit reference agencies are large and profitable businesses, whose value is measured by the quality of their databases. Thus, our strategy in that area is very simple. We intend to expand the ERIF database, while retaining transparency towards the market and clients. This is what we have geared our efforts to achieve. At present, the ERIF Debtor Register has over 1 million entries, and in 2011 alone the database grew by 105%. It is also the only credit reference agency in Poland whose database has been verified by an independent auditor (KPMG). We are also considering plans to launch credit information agencies in other countries where we operate. At some point in the future, we may launch this product on the Romanian and Czech markets.
Also, we are continuing with the work on our new project, the Novum Loans. This product is addressed to KRUK's former debtors who have a track record of timely instalment payments and have fully repaid their liabilities to

The situation in our industry in 2012 will, to a large extent, depend on the supply of debt portfolios from banks.

The year 2012 will be the time of preparation for the Great Journey.

the Group. However, due to their negative credit histories, those persons are excluded from access to bank loans. In 2011, KRUK granted 4,675 NOVUM Loans, up by 57% year on year.

What can we expect this year?

The situation in our industry in 2012 will, to a large extent, depend on the supply of debt portfolios from banks. We estimate that, as in 2011, expenditure on debt purchases in Poland will reach approximately PLN 1bn. The banking sector remains a significant source of supply by selling consumer debts. We have participated in nearly all debt auctions and we estimate our share in the markets where we operated in 2011 at approximately 36%. We will not change our strategy this year and will continue as an active player on the debt purchase market. In 2012, banks are expected to step up sale of corporate debt portfolios. This area of operations will be an addition to our core business, focused on consumer debts.

We will continue to search for the best solutions with regard to service quality, state-of-the-art technologies, and business expansion – both in terms of the scope of our offering and geographical reach.

The year 2012 will be the time of preparation for the Great Journey, the Journey to the top of the debt management market in Central and Eastern Europe.

Whether one reaches the top is only in the mind. It takes strong will, perseverance and... a one-step approach. One small step that we take whenever it seems we can go no further. In business that one step is unnoticeable, inconspicuous, but it is as important as in mountain climbing. This mechanism will not allow us to let go. Confronted with difficulties and crises, we tell ourselves: move on! And forward we go, blazing a trail until we reach another top.

To conclude, I would like to thank all those who have contributed to KRUK's success, in particular our shareholders for their trust and patience. I believe that their ranks will continue to grow this year.

Once again, I would like to encourage you all to read the KRUK Group's 2011 Annual Report. I am proud to lead the excellent team, whose work in 2011 delivered such excellent results.

Sincerely yours
Piotr Krupa

President
of the Management Board
KRUK S.A.

1. INTRODUCTION

1.1 OVERVIEW OF THE GROUP

Form of incorporation of the Parent

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

The Company was established in 1998 as KRUK Spółka z o.o. 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 it was entered in the National Court Register – Register of Entrepreneurs by the District Court for Wrocław Fabryczna of Wrocław, 6th Commercial Division of the National Court Register, under entry No. KRS 0000240829.

The Company’s shares and allotment certificates for ordinary bearer shares were floated on the main market of the Warsaw Stock Exchange on May 5th 2011 through standard procedure, pursuant to Resolution No. 586/2011 and Resolution No. 587/2011 of the WSE Management Board.

Contact details of the Parent

- Name: KRUK SPÓŁKA AKCYJNA
- Registered address: ul. Legnicka 56, 54-204 Wrocław, Poland
- Telephone: +48 71 79 02 800
- Fax: +48 71 79 02 867
- Website address: www.kruksa.pl

1.2 OVERVIEW OF THE GROUP’S OPERATIONS IN 2011

The year 2011 was very successful for the KRUK Group, the leader of the debt collection market in Poland and Romania. In 2011, the Group achieved its best financial results ever: the net profit of PLN 66.4m was 84% up on 2010. The return on equity as at the end of December 2011 was 27.9%.

Also, 2011 saw the largest ever purchases of debt portfolios by the KRUK Group, which will

contribute to building the Group's economic value in the future. The total expenditure on debt purchases was PLN 569m. In the middle of 2011, the Group commenced operations on the Czech market by purchasing its first debt portfolios in the country and placing them under the operational management of a new company, KRUK International S.r.o., based in Prague. The operations in the Czech Republic were launched in pursuit of the consistent strategy focused on positioning the KRUK Group as the leader of the debt collection market in the CEE region. As part of its first debt purchase, of four portfolios, in the Czech Republic, the Group also acquired two portfolios in Slovakia, but these are not material for the assessment of the Group's standing and performance.

The KRUK Group's business model relies on the Group's strong presence in two key market segments: debt purchase and credit management services. The model's duality offers significant benefits, as it generates synergies and enhances efficiency at each stage of the operations - from business relations to debt collection processes, which the Group improves continuously.

The Group offers a very extensive range of services, from loss prevention to services at all stages of amicable collection or litigation, including hybrid services combining selected debt collection services and tools enabling the Group to adjust its offering to specific needs of particular clients and debt profiles. A useful addition to the Group's offering are legal services rendered by Kancelaria Prawna RAVEN and the services of ERIF, Group's own credit bureau. The Company believes that innovation is pivotal for the Group's future growth. Accordingly, the KRUK Group has been expanding and enhancing its offering and the employed tools and methods by implementing new innovative solutions.

Since mid-2008, the Group has consistently pursued a strategy focused on amicable debt settlement with indebted individuals. Under the strategy, debtors are treated as consumers who are unable to pay debts for reasons beyond their control, and who acknowledge that obligations once incurred must be settled. As a result, the Group gears its debt collection efforts to achieving the optimum solution given the debtor's current financial capabilities (e.g. through instalment-based repayments). The strategy has improved efficiency of the collection efforts and has led to more regular payments by debtors.

KRUK has been present on the Polish market since 1998. Historical recovery data on debt portfolios purchased by the Group and debt recovery statistics for credit management services (database used for debt portfolio valuation) equip

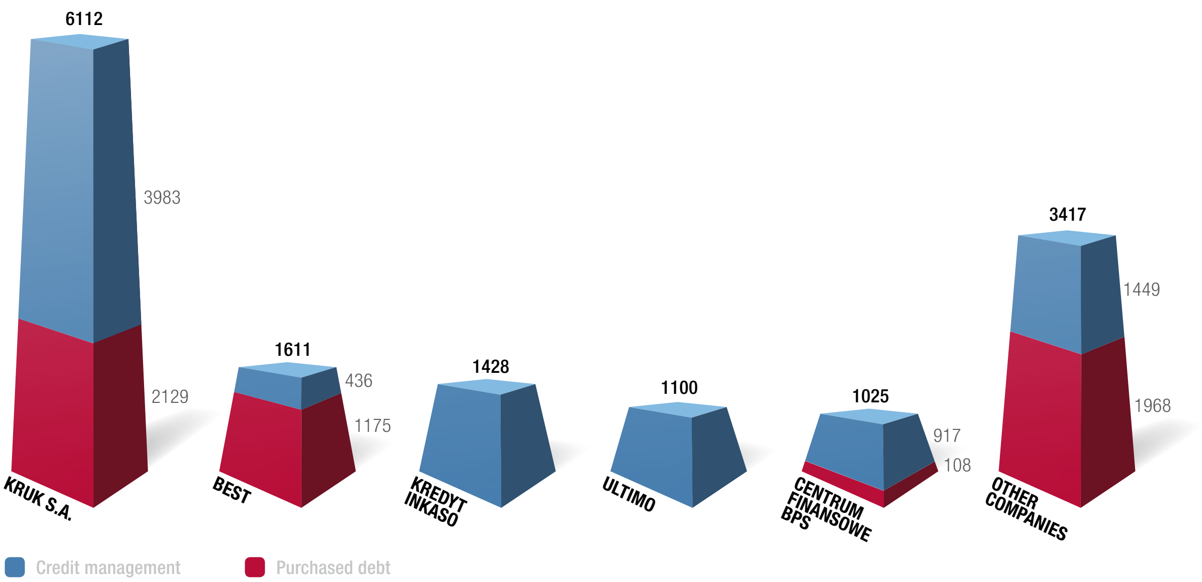
KRUK with the expertise necessary for efficient debt portfolio valuation, purchase and servicing. Relevant experience in debt portfolio valuation is a critical success factor in the debt purchase segment of the market.

The large scale of the Group's operations offers a vital competitive advantage. On the one hand, the Group has the operational capacity to absorb large debt portfolios, thus demonstrating potential for high-volume support of large debt portfolios across Poland. On the other hand, the size of its business enables the Group to secure external funding of debt purchases at competitive costs. The scale of its operations enables the Group to incur substantial capital expenditure on the development of its IT systems and statistical analysis functions, which significantly improves the effectiveness of the debt collection operations.

The Group also operates a credit reference agency offering loss prevention services and supporting debt collection activities. The agency collects both negative and positive consumer and corporate credit histories. The ERIF Debtor Register is a business information exchange system operating under the Act on Access to Business Information. It is one of Poland's three credit reference agencies. Under the Act, secondary creditors, including the Group, can submit relevant data on debtors to credit reference agencies. Therefore, the database of the ERIF Debtor Register was growing dynamically from 142 thousand records in 2009, to 515 thousand records in 2010, and up to 1m records in 2011. The credit reference agency's services are used to discipline debtors as part of debt collection activities. ERIF's direct business model is based on subscription fees paid by clients from the consumer finance and B2B segments.

In 2011, the KRUK Group also worked on developing a short-term cash loan service for former debtors who have a track record of repaying their liabilities to the Group in a timely manner. It is

CHART 1. Debt acquired in 2011 (nominal value, PLNm)



Source: based on "Akcjonariusze windykatorów mają powody do optymizmu", Gazeta Giełdy Parkiet, February 4th/5th 2012 (KRUK data: estimates as at January 19th 2012) a new service designed to diversify the Group's revenue sources. In 2011, KRUK S.A. granted 4,675 Novum cash loans with a net value of PLN 6,4m. A Novum loan is typically a 3-15-month credit product of up to PLN 2 500.

The Group's leader position on the Polish market is confirmed by rankings of debt collection firms published by Polish dailies (Rzeczpospolita, Gazeta Giełdy Parkiet). The KRUK Group has topped the rankings for many years in a row. According to the data published in Gazeta Giełdy Parkiet on February 4th–5th 2012, the nominal value of debts purchased by the KRUK Group and covered by its credit management services was almost four times higher than that of the second-largest Polish debt collection company featured in the ranking.

The Group processed debt originating in a number of segments of the economy (banks, credit agents, insurance firms, leasing companies, fixed and

TABLE 1. Group's selected historical financial data

	PERIOD ENDED DEC 31		
	2011	2010	CHANGE
	(PLN '000, UNLESS STATED OTHERWISE)		
Revenue	274 031	164 281	67%
EBITDA	101 422	46 573	118%
Operating profit (EBIT)	95 995	42 636	125%
Net profit for the period	66 392	36 119	84%
Cash flows from operating activities, including	-340 830	-46 689	-630%
Debt purchases	-563 705	-192 670	-193%
Cash recoveries	341 122	197 939	72%
Cash flows from investing activities	-6 954	-6 226	-12%
Cash flows from financing activities	363 213	49 896	628%
Total net cash flows	15 429	-3 019	611%
Total assets	800 466	317 553	152%
Equity	238 383	130 299	83%
Return on equity	28%	28%	0%
Earnings per share (PLN)			
Basic	4.03	2.34	72%
Diluted	4.03	2.34	72%

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

mobile phone operators, cable TV operators, digital platforms, and the FMCG and B2B sectors), but it focused primarily on the fastest-growing segments of the market, i.e. financial services, and consumer debt in particular. Banks were the main group of KRUK's clients. In 2011, the Group provided its services to 9 of the top 10 banks in Poland. Since 2007, the Group has been also operated on the Romanian market, where over the last four years it has held the leading position. In 2011, the Group provided its services to 6 of the top 10 banks in Romania. In the middle of 2011, the Group launched operations on the Czech market by purchasing by the end of the year debts with a total nominal value of PLN 428m and entering into cooperation with two of the top five banks in the Czech Republic.

As at the end of 2011, the Group's total headcount was 1,384 staff (employed under employment contracts).

1.3 OPERATIONAL AND FINANCIAL HIGHLIGHTS FOR 2011

As at the end of December 2011, the Group were processing 2.0m debt cases with an aggregate nominal value of PLN 15.1bn. These involved debt under credit management or debt purchased by the Group in 2011 and before. To compare, as at the end of 2010, the Group were processing 1.8m cases with an aggregate nominal value of PLN 11.2bn. The nominal value of debt placed under the Group's credit management in 2011 totalled PLN 8.8bn.

The Group has reported strong growth of its financial results. In 2011, the Group generated revenue of PLN 274m, its operating profit was PLN 96m, and net profit totalled PLN 66m. Thus, compared with 2010, the Group's revenue rose by 67%, its operating profit - by 125%, and net profit - by 84%. The strong performance in 2011 was primarily driven by very good results of the debt purchase segment. In 2011, the Group strengthened its leading position on the Polish debt purchase market which grew significantly during the year. This enabled KRUK to spend record-high amounts on debt purchases that will generate profit in future years.

TABLE 2. Change in purchased debt portfolios

CHANGE IN PURCHASED DEBT PORTFOLIOS FOR CASH-FLOW STATEMENT PURPOSES	PERIOD ENDED DEC 31	
	2011	2010
	(PLN '000)	
Purchased debt portfolios at beginning of the period	263 228	150 435
Purchase of debt portfolios	568 879	193 975
Purchase price adjustment – discount	-5 174	-1 305
Cash recoveries	-341 122	-197 939
Revenue from debt purchase (interest and revaluation)	232 895	118 062
Purchased debt portfolios at end of the period	718 706	263 228
(Increase)/Decrease in financial assets at fair value through profit or loss	455 478	112 793

Source: Consolidated Financial Statements

There are **PEAKS,**
worth CLIMBING.

There are **GOALS,**
that should be SET.

There are
CHALLENGES,
that can change LIVES.

2. MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS AFFECTING THE GROUP'S BUSINESS

2.1 STRUCTURE AND DESCRIPTION OF THE DEBT COLLECTION MARKET

The key segmentation criterion on the debt collection market is the type of debt. Based on this criterion, there are three market segments:

- Consumer debt market, comprising all debts of consumers (natural persons) to businesses (B2C sector), i.e. receivables of banks, insurers, service providers (such as telecommunications or cable TV operators), or housing cooperatives;
- Corporate debt market, comprising debts of businesses, primarily resulting from outstanding financial liabilities towards banks (often collateralised), with significant unit nominal values;
- Commercial debt market (B2B sector), comprising outstanding debts of businesses owed to other businesses, primarily resulting from unpaid invoices.

The following business segments can be distinguished based on the business models adopted by debt collection agencies:

- Credit management services;
- Debt purchase.

The Group's primary markets in 2011 were the markets of consumer debt to banks in Poland and Romania. In mid-2011, the Group entered also the Czech market and took preliminary steps toward launching operations in Hungary.

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

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

- Real growth in household incomes translates into consumers' greater willingness to spend and borrow, a natural consequence of which is the subsequent increase in banks' lending activity and the resultant growing number of debtors;
- Increase in the lending activity and the number of debtors translates into a rising overall debt level in the economy and, consequently, into more cases being processed on the credit management market;
- Growing incomes of the population result in a higher loan repayment rate, which improves collectability of debt held by the Group and, in the subsequent periods, reduces the number of collection cases outsourced to debt collection agencies, unless the effect is compensated by an increase in the overall debt level in the economy.

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

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

An important market parameter which has a bearing on the demand for debt collection services provided by the Group, and on the supply of new debt portfolios, is the banks' interest in outsourcing these to debt collection agencies, defined as the share of debt outsourced for collection, or sold to specialised third-party service providers, in the overall volume of non-performing debts.

The Group's clients, on the Polish and foreign markets, adopt a variety of debt collection strategies. The Group is exposed to the risk that their interest in outsourcing debt collection or selling receivables will be reduced, with the corresponding increase in the volume and value of debts collected by creditors using their own resources. Such lesser interest in outsourcing debt collection or selling receivables would suppress demand for external debt collection services rendered by the Group, and reduce the supply of debt portfolios available for purchase, in turn adversely affecting the Group's revenue.

The Group has been operated on the Romanian debt collection market since 2007, and launched its operations on the Czech market in 2011. In 2011, the foreign markets accounted for 38% of total revenue. In foreign markets, the Group purchases debt portfolios denominated in local currencies for its own account. Exchange rate fluctuations affect the fair value of the debt portfolios held by the Group and require revaluation of such investments.

The credit management industry is highly competitive. Entities which provide debt collection services to financial institutions compete primarily in terms of the range of their operations, recovery rates (effectiveness), prices and personal data protection standards. The Group is exposed to the risk of losing one or more clients and being forced to reduce prices of its services, which may have an adverse effect on the Group's revenue.

Competition in the segment of debt collectors purchasing debt portfolios for their own account is less intense than in the credit management segment, owing to the market's higher barriers of entry. These include: access to capital, debt portfolio recovery rates history as the basis for valuation of debt portfolios, as well as the size of the operations enabling large-scale collection of significant debt portfolios. Receivables are purchased in auctions, where the primary award criterion is the price. There is still a risk of new competitors entering the market and building their own history of debt recovery, which may translate into pressure on the Group to offer higher prices in auctions.

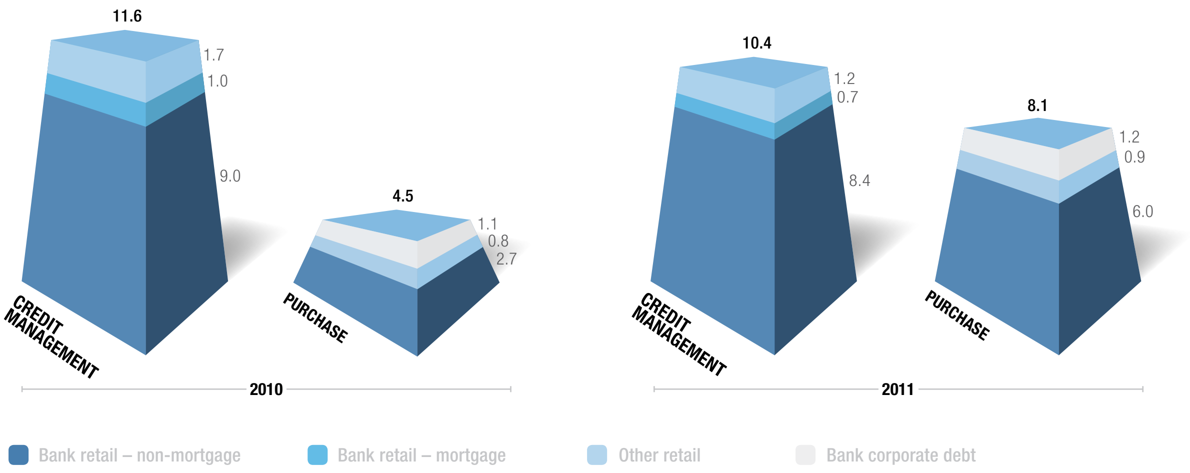
2.1.1 DEBT COLLECTION MARKET IN POLAND

In 2011, the market saw a strong growth in debt sale, in particular by entities from the financial sector. In 2011, the nominal value of debts sold by financial institutions reached PLN 7.2bn, compared with approximately PLN 3.8bn in 2010, according to KRUK's estimates. The total value of non-mortgage retail loans sold by banks, which represent the main segment for KRUK's debt collection services, more than doubled over the year.

2011 was, therefore, the year of record-high values of retail debt offered for collection by banks and other institutions. Apart from numerous small and medium-sized debt sale transactions, there were also several transactions with a market value of approximately PLN 100m each. Also in 2011, some banks started to regularly put debt portfolios for sale. Based on the outcome of several corporate debt tenders closed at the end of 2011, the Group estimates that in 2011 the size of the market was similar to that seen in 2010.

The Polish credit management sector, where the Group operates, is highly fragmented and competitive. There are many debt collection agencies on the market, and clients typically have relationships with a few competing entities from the sector. Entities which provide credit management services to financial institutions compete primarily in terms of the range and flexibility of their operations, effective collection rates and personal data protection standards.

CHART 2. Size and structure of Polish debt collection market by nominal value (PLNbn)



Source: Company estimates

Competition in the segment of debt collectors purchasing debt portfolios for their own account is less intense than in the credit management segment, owing to the market's higher barriers of entry. These include: access to capital, debt repayment rate history as the basis for valuation of debt packages, as well as the size of the operations enabling large-scale collection of significant debt packages. Debts are purchased in auctions, where the primary award criterion is the price. There are already a few major players in the segment of debt collection agencies purchasing debt packages for their own account.

The list in the table No. 3 includes entities which provided Gazeta Giełdy Parkiet with data on the value of debts accepted for collection and debts purchased. According to the table No. 3, the total value of debt purchased by the Group and outsourced to it for collection is PLN 6.1bn, i.e. 18% more than the aggregate value of debt handled by the collectors ranked second to fifth.

Taking into account also smaller agencies, which are not included in the above ranking, the Group estimates the size of the credit management and debt purchase markets at approximately PLN 10.3bn and PLN 8.1bn, respectively. The Group has strengthened its leading position on the debt collection market, and now holds a 39% share of the market (based on Company estimates). The Group attained a record-high share in the credit management market by processing debts originating in a number of segments of the economy (banks, credit agents, insurance firms, leasing companies, fixed and mobile phone operators as well as cable TV operators, digital platforms and the FMCG and B2B sectors), but its primary focus has been the largest segment of the market, i.e. financial services, and consumer debt in particular. Banks were the main group of KRUK's clients. In 2011, the Group provided its services to 9 of the top 10 banks in Poland.

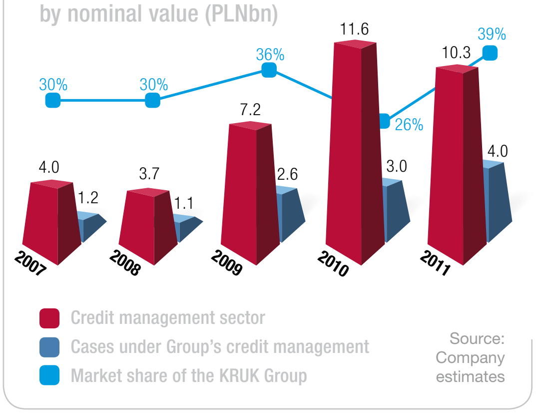
In 2011, the Group consolidated its position on the retail debt purchase market. The Group's expenditure incurred in Poland was PLN 375m, which accounted for approximately 32% of total expenditures incurred by Polish debt collection agencies on retail debt purchases. A substantial portion of these purchases was related to non-mortgage retail loans sold by banks.

TABLE 3. Structure of the credit management market by market shares of debt collection agencies, based on the value of cases processed in Poland in 2011

	DEBT PURCHASED		DEBT OUTSOURCED FOR COLLECTION		TOTAL	
	2010	2011	2010	2011	2010	2011
KRUK	786	2 129**	3 018	3 983**	3 804	6 112
BEST	897	1 175	398	436	1 295	1 611
KREDYT INKASO	615	1 428	0	0	615	1 428
ULTIMO	Data un-available	1 100	Data un-available	0	Data un-available	1 100
CENTRUM FINANSOWE BANKU BPS	66	108	698	917	764	1 025
E-KANCELARIA	35	94	205	702	240	796
EGB INVESTMENTS	292*	562	BD.	211	292	773
PRAGMA INKASO	122	454	115	171	237	625
DTP	592	288	53	115	645	403
PRESCO	112	305	0	0	112	305
VINDEXUS	193	257	39	8	232	265
COMPLEX CREDIT SOLUTION	0	6	34	232	34	239
FAST FINANCE	50	2	0	10	50	11
TOTAL	**3 759**	**7 907**	**4 561**	**6 786**	**8 321**	**14 693**

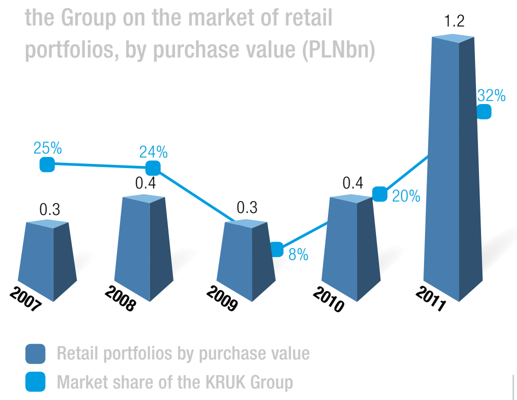
*Total value of debt purchased and outsourced for collection in 2010.
**As at January 19th 2012.
Source: "Akcjonariusze windykatorów mają powody do optymizmu", Gazeta Giełdy Parkiet of February 5th 2012.

CHART 3. Estimated position of the Group on the market of credit management of retail portfolios, by nominal value (PLNbn)



Source: Company estimates

CHART 4. Estimated position of the Group on the market of retail portfolios, by purchase value (PLNbn)



Source: NBP, IbnGR, KRUK S.A.'s estimates

2.1.2 FOREIGN MARKETS

Romania

The Company estimates that in 2011 Romanian banks and companies transferred to third-party collectors debts valued at PLN 4.5bn, the same as in 2010. The Company estimates that in 2011 the total nominal value of retail debt portfolios sold by banks on the Romanian market was PLN 2.5bn, a 16% increase on 2010 (PLN 2.2bn). In 2011, the Company saw acceleration the growth of debt purchase market accelerate, chiefly due to the growing delinquency ratios of consumer loans and banks' higher willingness to sell debts. The Company estimates the value of debt portfolios purchased in 2011 at approximately PLN 196m (at purchase prices).

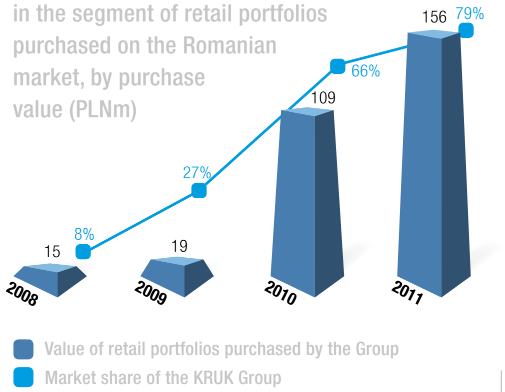
The Romanian debt collection market is less fragmented than the Polish market. The two key operators on the Romanian debt purchase market are international players: the EOS Group and the KRUK Group. The Romanian credit management segment is more fragmented. In 2011, Romanian banks continued their policy of preferring debt sales over debt collection outsourcing. Although the Group continued to follow the dual business model, it reduced its share in the credit management market to approximately 7%, and reallocated its resources to the debt purchase segment which was more profitable in the period. Hence, in 2011 the Group significantly increased debt portfolio purchases on the Romanian market, consolidating its position in the segment; the total expenditure on debt portfolio purchases of over PLN 156m secured the Group a 79% market share.

Czech Republic

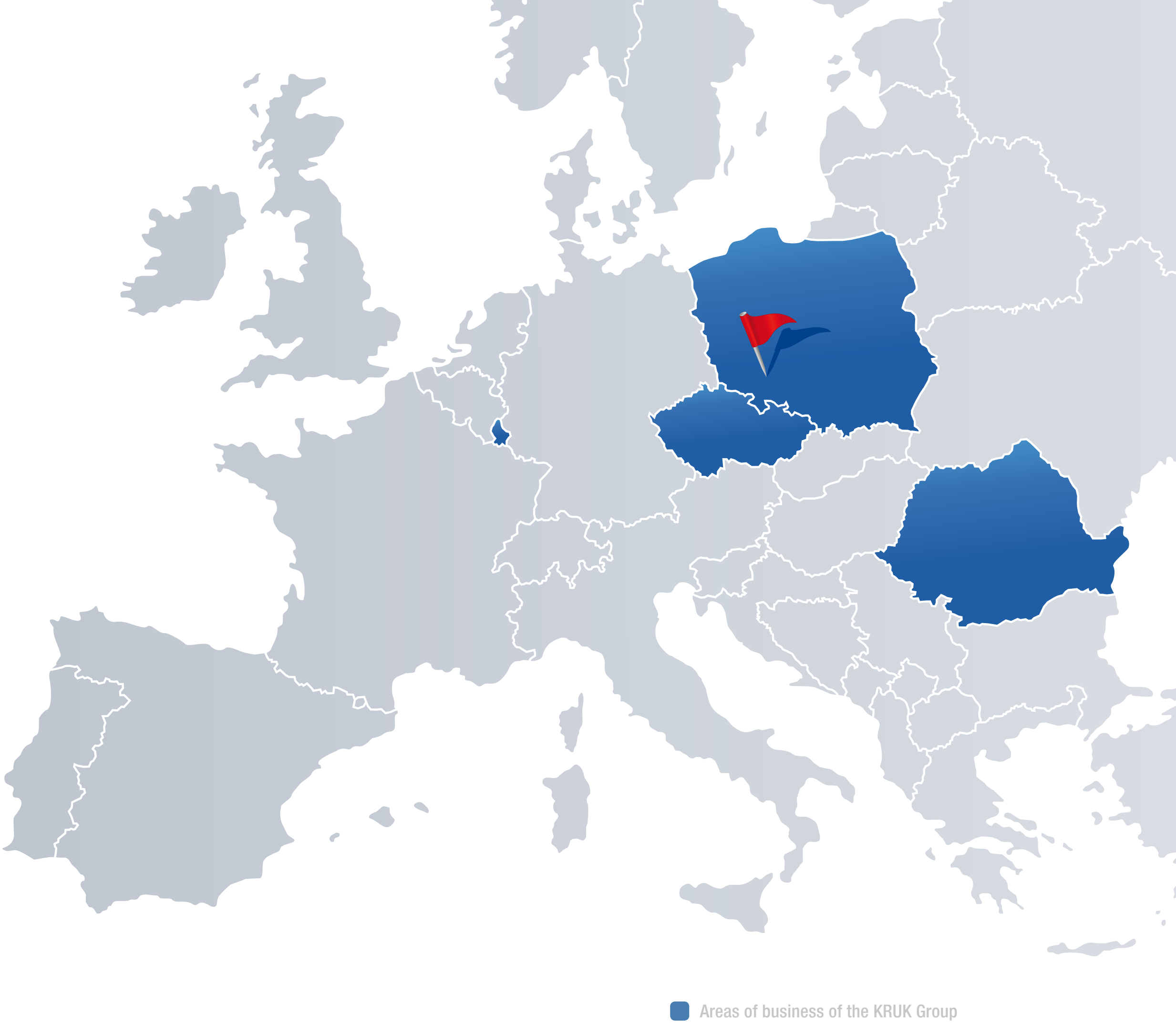
The Czech debt collection market is similar to the Polish and Romanian markets in terms of the legal regime; however, the Czech law permits additional charges to be imposed on debtors in the course of litigation. The Company estimates that the value of the Czech debt purchase market in 2011 was PLN 1.1bn, while investment of the market amounted to PLN 215m.

In 2011, the Group launched operations on the Czech market, where by the end of the year it purchased portfolios with a nominal value of PLN 428m. The Company estimates that the

CHART 5. Market position of the Group in the segment of retail portfolios purchased on the Romanian market, by purchase value (PLNm)



Source: Company estimates



Group's expenditure of PLN 38m incurred on the Czech market in 2011 yielded an 18% share in the debt purchase market in terms of invested capital. The KRUK Group is currently in discussions with leading banks and non-financial institutions in the Czech Republic with a view to establishing cooperation in the area of credit management services and developing the Group's debt purchase business on the Czech market.

In terms of competition, the debt collection market in the Czech Republic is fragmented, with over 150 debt collectors. The largest competitors include the EOS Group, Intrum Justitia, MBA Finance, Profidebt and Transcom.

2.2 LEGAL AND REGULATORY ENVIRONMENT

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

In particular, the Group's operations must comply with the applicable laws and regulations on competition and consumer protection. Owing to the nature of its operations, the Group is exposed to the risk that the President of the Polish Office of Competition and Consumer Protection (UOKIK), or another competent consumer protection authority (in particular abroad), finds that the Group's activities infringe on collective consumer interests. Also, there is a risk that the UOKIK President, or another competition protection authority, may bring abuse charges against entities holding a dominant market position. On concluding that such abuse exists, the UOKIK President, or another competition protection authority, may demand that the abuse of dominant position be discontinued, and impose a financial penalty.

The nature of the Group's operations involves extensive personal data processing as part of the Group's everyday business. Personal data processing by the Group must comply with the laws and regulations on personal data protection in effect in the countries where the Group is present. No assurance can be given by the Company that, despite employing technical and organisational measures to protect the personal data it processes, the Group will not fail to comply with its legal obligations in this respect, and in particular that personal data will not be disclosed to unauthorised persons.

Certain segments of the Group's business, in particular operation of securitisation funds and management of the funds' securitised debt, as well as operations involving the provision of detective services, are subject to special regulations under the Polish, Romanian and EU laws. To be able to conduct such activities, the Group is required to obtain authorisations or consents from public administration authorities, including the PFSA, and is supervised by those authorities.

2.2.1 SECURITISATION FUNDS

Operations of the Group's securitisation funds (Prokura NS FIZ and Prokulus NS FIZ) are regulated. Securitisation funds which operate in Poland as closed-end investment funds are supervised by the PFSA, which is equipped with broad supervisory powers and legal instruments.

The PFSA's powers include: grant of an authorisation for the management of the securitised debt of a securitisation fund by an entity other than an investment fund; supervision of entities which manage the securitised debt of a securitisation fund, including their compliance with applicable laws, the fund's articles of association, agreements executed with the investment fund management company and the relevant authorisation; and imposition of penalties and other measures in the event of a breach of laws governing investment funds' operations, including pecuniary penalties or withdrawal of authorisations.

Pursuant to the amended Act on Investment Funds (Journal of Laws of 2011, No. 234, item 1389), the PFSA no longer has the authority to grant authorisations to establish closed-end investment funds. A closed-end investment fund is established upon its entry in the register of investment funds.

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

2.2.2 OUTSOURCING OF DEBT COLLECTION BY BANKS

Pursuant to the amended Banking Law (Journal of Laws of 2011, No. 201, item 1181), banks are not required to request PFSA's approval for transferring debt for collection by the Group. Nonetheless, the Group companies are subject to the PFSA's oversight with respect to the performance of such collection outsourcing agreements.

2.2.3 EXCHANGE OF BUSINESS INFORMATION

The operations of the ERIF BIG S.A.'s Debtor Register is governed by the Act on access to business information and sharing of business data of April 9th 2010 (Journal of Laws of 2010, No. 81, item 530, as amended). The supervision of compliance of ERIF operations involving providing access to and exchange credit information with the applicable laws is exercised by the Minister competent for the economy.

2.2.4 OTHER AUTHORITIES MATERIALLY INVOLVED IN OVERSIGHT OF THE GROUP'S OPERATIONS

The Group is also subject to oversight by other authorities which regulate specific areas of its business. These include:

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

2.2.5 PERSONAL DATA PROTECTION

The extent of personal data processing in the Group's day-to-day operations make personal data protection regulations materially important for the Group's activities. Personal data processing must be conducted in strict compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against unauthorised disclosure. In addition, individuals whose data are processed must have the right to access and correct such data.

Operations of the ERIF Debtor Register, which involve providing access to credit information, are also governed by the Act on Access to Business Information. Furthermore, relevant provisions of the Banking Law concerning banking secrecy apply to the servicing of bank debts.

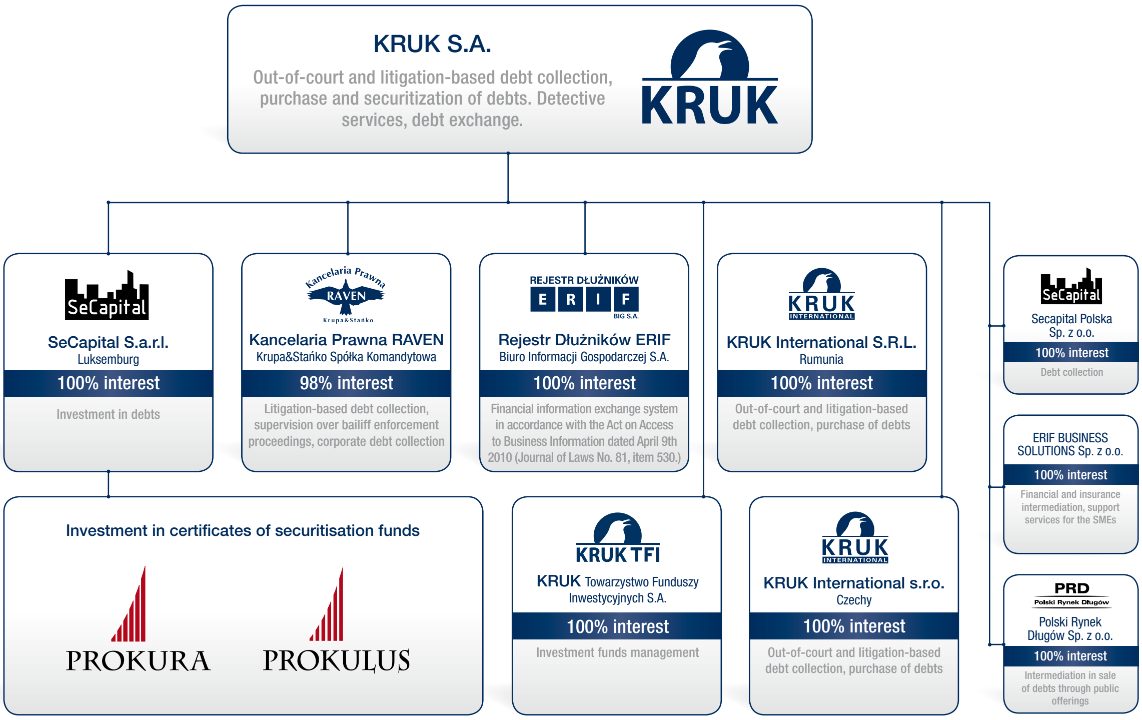
2.2.6 CHANGE IN CONSUMER LOAN REGULATIONS

On December 19th 2011, the Act of May 12th 2011 (Journal of Laws of 2011, No. 126, item 715, as amended) on execution and contents of extension of debt payment agreements and of borrowing agreements.

3. GENERAL INFORMATION ABOUT THE GROUP

3.1 STRUCTURE OF THE GROUP

The structure of the KRUK Group's as at December 31st 2011, with information on KRUK S.A.'s ownership interests in subsidiaries, is presented below:



3.1.1 DESCRIPTION OF THE GROUP'S STRUCTURE

As at December 31st 2011, the Group comprised KRUK S.A. and eleven subsidiaries:

- **Kancelaria Prawna RAVEN Krupa&Stańko** of Wrocław, a law firm providing comprehensive debt litigation and enforcement services exclusively in connection with debt collection processes conducted by the Group and its partners;
  Registered office and address:
  ul. Legnicka 56, 54-204 Wrocław, Poland;
- **Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.** of Warsaw, a credit reference agency serving as a platform for collecting, processing and providing information on natural persons and businesses, both delinquent debtors and timely payers;
  Registered office and address:
  Plac Bankowy 2, 00-095 Warszawa, Poland;
- **ERIF Bussines Solutions Sp. z o.o.** of Wrocław, the company's core business consists in financial and agency services, and support for Small and Medium-Sized Enterprises;
  Registered office and address:
  ul. Legnicka 56, 54-204 Wrocław, Poland;
- **KRUK International S.R.L.** (Romania) of Bucharest, a credit management and debt purchase company;
  Registered office and address:
  51 Calea Mosilor, 5th, 6th and 7th floor,
  3rd district, 030144 Bucharest, Romania;

- **SeCapital S.á.r.l** of Luxembourg, a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets;
  Registered office and address:
  2 Avenue Charles de Gaulle,
  L-1653 Luxembourg, Luxembourg;
- **Prokura NS FIZ and Prokulus NS FIZ**, securitisation funds which are securitisation and investment vehicles relying on professional risk assessment and credit management methodologies. All certificates issued by the securitisation funds are held by SeCapital Luksemburg S.á.r.l., and consequently any gains on an appreciation in the value of the certificates issued by Prokura NS FIZ and Prokulus NS FIZ are taxed in Luxembourg;
- **Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.**
  Registered office and address of the management company:
  ul. Grójecka 5, 02-019 Warszawa, Poland;
- **Secapital Polska Sp. z o.o.** of Wrocław, securitised debt company;
  Registered office and address:
  ul. Legnicka 56, 54-204 Wrocław, Poland;
- **Polski Rynek Długów Sp. z o.o.** of Wrocław*, a company providing support services for the debt collection process;
  Registered office and address:
  ul. Legnicka 56, 54-204 Wrocław, Poland;
  * As of February 15th 2012, the company operates under the name of **Novum Finance Sp. z o.o.**; its primary business consists in granting loans to former debtors of the KRUK Group;
- **KRUK International S.r.o.** of Prague, Czech Republic, a credit management and debt purchase company;
  Registered office and address:
  Šafránkova 1238/1, Postal Code 155 00,
  Prague 5, Czech Republic;
- **KRUK Towarzystwo Funduszy Inwestycyjnych S.A.** of Wrocław, an investment fund management company;
  Registered office and address:
  ul. Legnicka 56, 54-204 Wrocław, Poland;

3.1.2 CHANGES IN THE GROUP'S STRUCTURE

On April 13th 2011, KRUK S.A. acquired 100% of shares in Reberifa S.r.o. of Prague, with share capital of CZK 200,000. As per the entry in the Register maintained by the Municipal Court in Prague, dated May 16th 2011, the company's current name is KRUK International S.r.o. The acquisition of the Czech company is an element of the Group's expansion into the Czech debt collection market.

KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław was registered on May 16th 2011 with the National Court Register maintained by District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register under entry No. 0000386317.

Pursuant to a resolution of the General Meeting of **Secapital Polska Sp. z o.o.** dated April 20th 2011, by virtue of a decision of October 14th 2011, the share capital of Secapital Polska Sp. z o.o. was reduced from PLN 51,000 to PLN 50,000 through retirement of one share. As of October 14th 2011, KRUK S.A. is the only shareholder of Secapital Polska Sp. z o.o.

ERIF Bussines Solutions Sp. z o.o. was established as a result of changes at Kruk Corporate Sp. z o.o., pursuant to a resolution of the company's Extraordinary General Meeting of October 26th 2011. The changes were registered by the court on November 29th 2011.

On October 7th 2011, KRUK S.A. executed an agreement to purchase a Hungarian company **SH Money Ingatlanfinanszírozási és Pénzügyi Zártkörűen Működő Részvénytársaság** ("SH Money"). SH Money has not conducted any operations but holds licences to purchase debt in Hungary. The transaction will be closed following its approval by the Hungarian financial regulator.

3.1.3 CHANGES IN THE GROUP'S SIGNIFICANT MANAGEMENT POLICIES

In the financial year 2011, there were no changes in the significant policies of managing the Parent and its subsidiaries.

3.1.4 CONSOLIDATED ENTITIES

All Group entities are consolidated.

3.1.5 COMPANY BRANCHES

The Company has the following branches, registered by the National Court Register:

- Poznań Branch, with registered office at ul. Hallera 6-8, 60-104 Poznań, Poland;
- Warsaw Branch, with registered office at ul. Tużycka 8 room 5, 03-683 Warsaw, Poland;
- Kraków Branch, with registered office at ul. Płk. S. Dąbka 8/8, 30-732 Kraków, Poland;
- Katowice Branch, with registered office at ul. Dulęby 5, 40-833 Katowice, Poland;
- Bydgoszcz Branch, with registered office at ul. Fordońska 246/710, 85-766 Bydgoszcz, Poland;
- Łódź Branch, with registered office at ul. Zawiszy Czarnego 10, 91-829 Łódź, Poland;
- Gdynia Branch, with registered office at ul. Janka Wiśniewskiego 20, suite P.305,306, 81-969 Gdynia, Poland;
- Szczawno-Zdrój Branch, with registered office at ul. Szczawieńska 2, 58-310 Szczawno-Zdrój, Poland.

The branches do not keep separate accounting books.

3.2 SHARE CAPITAL

3.2.1 SHARE CAPITAL STRUCTURE

As at December 31st 2011, KRUK's share capital amounted to PLN 16,900,340.00 (sixteen million, nine hundred thousand, three hundred and forty złoty) and was divided into 16,900,340 (sixteen million, nine hundred thousand, three hundred and forty) Shares with a par value of PLN 1.00 per share, including:

- 2,692,220 Series A bearer shares;
- 11,366,600 Series AA bearer shares;
- 1,250,000 Series B bearer shares;
- 491,520 Series C bearer shares;
- 1,100,000 Series D bearer shares.

3.2.2 SHARE CAPITAL INCREASE

Pursuant to Resolution No. 3 of December 9th 2010 and Resolution No. 2 of January 21st 2011, the District Court for Wrocław-Fabryczna in Wrocław registered the Company's share capital increase from PLN 15,308,820.00 to PLN 15,800,340.00, i.e. by PLN 491,520.00. The share capital increase was effected through the issue of 491,520 new Series C ordinary shares.

Further, by virtue of a decision of the District Court for Wrocław-Fabryczna dated May 23rd 2011, a share capital increase of PLN 1,100,000.00, i.e. to PLN 16,900,340.00 was registered. The share capital increase was effected through the issue of 1,100,000 Series D ordinary shares.

The share capital increase was approved by way of Resolution No. 3 of the Extraordinary General Meeting of KRUK S.A. dated December 9th 2010.

Conditional share capital

By virtue of Resolution No. 1/2011 dated March 30th 2011, the Extraordinary General Meeting of KRUK S.A. approved conditional share capital increase of up to PLN 845,016.00, through an issue of up to 845,016 Series E ordinary bearer shares with a par value of PLN 1.00 per share.

The objective of the conditional share capital increase is to grant the right to subscribe for Series E Shares to holders of subscription warrants that are to be issued under the Company's Option Plan for 2011-2014. The conditional share capital increase of PLN 845,016.00 was registered by the Court on April 11th 2011.

3.2.3 USE OF PROCEEDS FROM THE PUBLIC OFFERING

As part of the public offering, up to 9,300,000 shares were offered, including up to 1,100,000 new issue Series D shares and from 3,300,000 up to 8,200,000 Series AA shares sold by Polish Enterprise Fund IV L.P. (selling shareholder), a fund managed by Enterprise Investors. The offering included both retail and institutional tranches. The subscription period was April 14th-April 21st 2011. On April 26th 2011, the Management Board of KRUK S.A. and the selling shareholder Enterprise Investors allotted a total of 9,300,000 offer shares.

The Management Board adopted a resolution on allotment of 1,100,000 of new issue Series D shares in the institutional offering.

The selling shareholder allotted a total of 8,200,000 of the Series AA shares, including:
- 930,000 shares in the retail offering,
- 7,270,000 shares in the institutional offering.

The reduction rate in the retail offering was 67.2%. Retail investors subscribed to a total of 2,837,481 KRUK shares.

The issue price of new issue shares was set at PLN 39.7 per share. The value of the entire offering was PLN 369.2m, including PLN 43.7m of new issue shares. Total cost and expenses recognised as issue costs were PLN 3,594 thousand, including preparation and execution of the issue (PLN 437 thousand), preparation of the issue prospectus and cost of advisory services (PLN 2,857 thousand) and marketing of the offering (PLN 300 thousand). Of the total amount, PLN 823 thousand were disclosed in the Company's statement of comprehensive income, and the balance of PLN 2,771 thousand reduced the proceeds from the share issue.

The Parent used proceeds from the issue of Series D shares, in line with the issue objectives, i.e. to purchase debt portfolios (mainly bank debt). In 2011, the KRUK Group invested PLN 569m in debt purchases. Apart from the public offering proceeds, other sources of funding the purchases included in large part proceeds from KRUK's notes issues, which in 2011 amounted to PLN 291m.

3.3 HUMAN CAPITAL

3.3.1 QUALIFIED PERSONNEL

Highly qualified staff represents one of the key success factors for the KRUK Group. The Group employs experts with broad debt collection experience. Many of the Company's managers have previous experience of working for banks, financial brokerage firms, telecoms, and large distribution companies. The Company's professional risk management team performs a central role in analysing and valuing purchased debt, and in analysing the effectiveness of debt collection operations. The Company also has a strong team of software developers focusing on development of IT infrastructure. As at the end of 2010, approximately **63% of the Group's staff were university graduates**.

The table No. 4 sets out the Group's employment data (full and part time positions under employment contracts) as at the dates indicated.

TABLE 4

	AS AT DEC 31 2011
Company	916
Subsidiaries	468
Total	**1 384**

Source: the Company

The table No. 5 sets out the Group's employment data (full and part time positions under employment contracts) as at the dates indicated, by geographical regions of the Groups' operations.

TABLE 5

	AS AT DEC 31 2011
Number of employees, including:	1 384
Poland	1 148
Foreign markets	236

Source: the Company

In 2011, the Group employed personnel both under employment contracts and managerial contracts. It also commissioned work under temporary employment contracts (umowa zlecenia) and piecework contracts (umowa o dzieło).

Since highly-qualified staff is a vital asset of the Group, the Company makes efforts to ensure development of its team and to offer optimum terms of employment. In 2011, the Group operated an extensive internal training system, designed to improve the debt collection personnel's skills in negotiation techniques, and to expand their knowledge of legal and psychological aspects of the debt collection process.

The Group personnel, both employed under employment contracts and engaged under civil-law contracts, participate in the incentive schemes operated by the Group. Additional benefits offered to the employees include **co-financing of post-graduate studies, training, specialist English courses, medical cards, fitness club membership, as well as rewards for special accomplishments**. The Company's employees and persons providing services to the Company at its organisational units or holding positions eligible to participate in the incentive scheme may also receive performance-based remuneration, including bonuses for accomplishment of tasks assigned to particular employees or bonuses for achievement of annual profit targets by the Company.

Members of the Company's Management Board and other key personnel of the Group are a strong team of experts in such areas as debt collection, sales, high-volume process management, finance, debt valuation, HR management, legal support, IT and public relations. Stability of the Group's management team (low turnover rate) and the extensive expertise developed over the years of employment at the Group are a source of important competitive advantages. These staff members are also covered by an incentive scheme operated by the Parent.

3.3.2 INCENTIVE SCHEME

KRUK S.A. operates an incentive scheme for key management personnel of the Parent and the Group companies.

The rules of the Incentive Scheme for 2011-2014 were adopted in Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A., dated March 30th 2011, and modified by virtue of a resolution of the Extraordinary General Meeting dated August 29th 2011. Under the scheme, eligible persons will be granted options to acquire Company shares on preferential terms set forth in the resolution and in the Rules for the Option Plan. The Eligible Persons comprise members of the Management Board (excluding the President), Company employees and employees of 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 acquire/subscribe for Subscription Warrants is made.

In connection with the implementation of the Option Plan, the General Meeting approved a conditional share capital increase of up to PLN 845,016.00, through an issue of up to 845,016 Series E ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series E shares to holders of subscription warrants that will be issued under the Option Plan. Holders of Subscription Warrants will be entitled to exercise the rights to subscribe for Series E Shares attached to the Subscription Warrants, at an issue price equal to the issue price of Company shares in the initial public offering, not earlier than six months after the acquisition of the Subscription Warrants and not later than on June 30th 2016.

Subscription Warrants will be issued in four tranches, one for each year of the reference period, i.e. for the financial years 2011–2014.

Subscription warrants for a given financial year will be granted by the Supervisory Board on condition that two financial ratios – EPS and EBITDA or ROE – reach a predefined level, according to the following criteria:

- The growth of EPS in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 17.5%;
- The growth of EBITDA in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 17.5%;
- ROE in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 20%.

If Subscription Warrants for a given financial year are not offered due to the fact that these conditions are not met, the Subscription Warrants for that financial year may be offered in the Tranche for the following financial year.

Subscription Warrants may be inherited, but may not be encumbered or disposed of.

3.4 DIVIDEND POLICY

3.4.1 HISTORICAL DATA ON DIVIDEND PAYMENTS

In the period covered by the historical financial information, the Company did not pay dividend from net profit.

3.4.2 DIVIDEND POLICY

In the medium term, the Group's strategy provides for reinvestment of all profits in business development, to ensure the growth of the Group's value. Accordingly, in view of its plans to continue the dynamic development of debt purchase activities, the Parent does not plan to pay dividend from 2012 profits. However, the Parent may pay out dividend in subsequent years to the extent such dividend does not affect its ability to raise financing required for further expansion.

Achievement of a **GOAL,**
is IMPORTANT
but **it also COUNTS**
what we BUILD
on the way -
TRUST in the other person.

4.1 PRINCIPLES APPLIED IN THE PREPARATION OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Purchased debt portfolios comprise mass overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under debt assignment agreements for prices lower than the nominal value of the debt. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages the portfolios and the Group's results of 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.

4.2 GENERAL INFORMATION ABOUT CURRENT AND EXPECTED FINANCIAL POSITION

There are no material risks to the Group's current and expected financial position. In 2011, the Group's net profit amounted to PLN 66.4m, up by PLN 30.3m (84%) year on year. The main source of the strong profit growth was the performance of the debt purchase segment, particularly on the Romanian market.

In 2011, in the debt purchase segment the Group made record high investments of PLN 569m. The Group also gained a substantial share of the credit management market, which can be a source of future business growth.

The consolidated statement of comprehensive income is presented in the table No. 6.

4.3 REVENUE BY PRODUCT

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

In the table No. 7 is presented a historical breakdown of cash inflows from purchased debt portfolios as a share in the amount of funds spent to purchase the portfolios.

TABLE 6. Consolidated statement of comprehensive income. For financial year ended December 31 2011 (PLN '000)

	Jan 1 2011 – Dec 31 2011	Jan 1 2010 – Dec 31 2010
Continued operations		
Revenue	274 031	164 281
Other operating income	1 367	870
Salaries and wages and other employee benefits	(70 519)	(56 723)
Depreciation and amortisation	(5 427)	(3 937)
Third-party services	(46 838)	(31 226)
Other operating expenses	(56 619)	(30 629)
	(179 403)	**(122 515)**
Operating profit	95 995	42 636
Finance income	2 934	2 200
Finance expenses	(30 383)	(9 231)
Net finance expenses	**(27 449)**	**(7 031)**
Pre-tax profit	68 546	35 605
Income tax	(2 154)	514
Net profit for the period	**66 392**	**36 119**

TABLE 7. Weighted average recovery curve in 2005–2011

WEIGHTED AVERAGE RECOVERY CURVE IN 2005–2011	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	**Total**
Cash recoveries in each of the years as % of funds spent	28%	66%	42%	30%	27%	25%	14%	+	+	**232% +**

Source: the Company

In 2011, the Group's total revenue was PLN 274m, 68% up on 2010. The main driver of this strong increase was the Group's organic growth, fuelled by the expansion of the credit management market in Poland and abroad, and the effectiveness of debt collection processes. The Group continued to pursue the strategy of consolidating its leading position on the growing debt collection market. In 2011, the Group particularly focused on the segment of debt purchase. As a consequence, revenue from debt purchase was PLN 230.4m in 2011, while revenue from credit management amounted to PLN 41.0m.

Each segment's performance is discussed in the table No. 8 The efficiency of each segment is assessed based on the segment's indirect margin analysed in the internal management reports reviewed by the Management Board.

In 2011, the Group's indirect margin was PLN 143.7m, having risen by PLN 69m, or 92%, on 2010. This dynamic increase was attributable to a number of factors, including:

- Increased investment in debt portfolios in 2010 compared with the previous years;
- High effectiveness of debt collection activities;
- Record-high investment in debt portfolios purchased in 2011;
- Appreciation of the Romanian currency against the Polish złoty.

Revenue derived from the purchased debt portfolios increased by 95% relative to 2010, which translated into segment's improved margin (up by 122% year on year).

TABLE 8.
PLN '000

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Revenue	274 031	164 281
Purchased debt portfolios	230 351	118 062
Collection services	40 966	44 063
Other products	2 714	2 156
Direct and indirect costs	(130 360)	(89 537)
Purchased debt portfolios	(103 123)	(60 825)
Collection services	(23 265)	(25 844)
Other products	(3 972)	(2 867)
Indirect margin	143 671	74 744
Purchased debt portfolios	127 228	57 237
Collection services	17 701	18 219
Other products	(1 258)	(711)

Source: the Company

The margin increased despite the occurrence of three events affecting the segment's operating expenses in 2011:

- In the second half of 2011, the Group decided to bring to court a number of additional, unplanned cases of a certain value from portfolios purchased in 2003–2009. Additional court expenses were recognised in Q4 2011, whereas recoveries and interest income will be postponed;
- At the end of Q3 and beginning of Q4 2011, the Group launched large-scale marketing and image-building campaigns in Poland and Romania. The related marketing and advertising costs were recognised in the debt purchase segment in Q4 2011;
- In December, the Group recognised a provision for duty on actions under civil law for 2008–2011, at PLN 5.6m, including PLN 3.9m for transactions executed in 2011.

Indirect margin generated by in the credit management segment dropped by PLN 0.5m, or 3% year on year, mainly as a result of revenue and margin decline in this segment of the Romanian market, where KRUK focused on debt purchase activities.

4.4 GEOGRAPHICAL STRUCTURE OF SALES

The Group conducts operations in two main geographical areas: in Poland and abroad (Romania and the Czech Republic).

In the presentation of data (table No. 9) by geographical segments, segments' revenue is recognised based on the location of debt collection offices.

In 2011, the foreign markets' share in the Group's total revenue and margin increased. This was mainly achieved on the Romanian market and was attributable to the following factors:

- Investment increase in 2010 and 2011 as compared with the previous years (over the last two years, the Group gained 65% and 79% shares in the Romanian debt purchase market, respectively, measured by the value of expenditure on debt purchases);
- Relatively higher returns (compared with debt purchases in Poland), following from relatively low prices;
- High effectiveness of debt collection activities;
- Depreciation of the Polish złoty against the Romanian currency in 2011.

4.5 STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The aggregate value of the Group's assets was PLN 800m, having grown two and a half times relative to the end of 2010. The largest growth was recorded in Current investments, a result of the high expenditure (PLN 569m in 2011) on debt purchase (table No. 10).

In May 2011, the Group made its debut on the Warsaw Stock Exchange by floating its new issue shares and selling existing shares. The Company's proceeds from the public offering amounted to PLN 39.8m, resulting in an increase of share premium. Capital reserves increased following creation of a PLN 40m capital reserve from retained earnings, to be used for the purposes of the incentive scheme.

Debt under bank borrowings and other debt instruments increased substantially in connection with new capital raised to finance debt purchases (table No. 11).

4.6 CASH FLOWS

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

- Financing debt purchases with own funds, bank loans and notes issues;
- Leasing property, plant and equipment and intangible assets or financing them with own funds;
- Financing other operations with own funds.

For a description of financial risk management, see section "Objectives and methods of financial risk management." The Company holds cash in PLN, EUR, USD, RON and CZK.

TABLE 9. Geographical structure of sales
PLN '000

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Revenue	274 031	164 281
Domestic market	170 010	122 711
Foreign markets	104 020	41 570
Direct and indirect costs	(130 360)	(89 537)
Poland	(106 785)	(76 804)
Foreign countries	(23 575)	(12 734)
Indirect margin	143 671	74 744
Poland	63 225	45 908
Abroad	80 445	28 837

Source: the Company

TABLE 10. Structure of assets and liabilities in the consolidated statement of financial position
As at Dec 31 2011, PLN '000

	DEC 31 2011	DEC 31 2010	CHANGE
Assets			
Non-current assets			
Property, plant and equipment	14 326	9 577	50%
Other intangible assets	6 651	4 937	35%
Goodwill	1 024	1 024	0%
Deferred tax assets	1 837	3 301	-44%
Total non-current assets	**23 838**	**18 839**	**27%**
Current assets			
Inventories	537	458	17%
Current investments	721 928	264 487	73%
Trade receivables	12 804	10 568	21%
Income tax receivable	-	2	-100%
Other receivables	3 354	697	381%
Prepayments and accrued income	1 800	1 726	4%
Cash and cash equivalents	36 205	20 776	74%
Total current assets	**776 628**	**298 714**	**160%**
Total assets	**800 466**	**317 553**	**152%**

Source: the Company

TABLE 11. Analysis of the structure of assets and liabilities in the consolidated balance sheet
As at Dec 31 2011, PLN '000

	DEC 31 2011	DEC 31 2010	CHANGE
Equity and liabilities			
Equity			
Share capital	16 900	15 309	10%
Share premium	45 107	5 308	750%
Exchange differences on translating foreign operations	330	385	-14%
Other capital reserves	43 365	2 967	1 362%
Retained earnings	132 493	106 288	25%
Equity attributable to owners of the parent	**238 195**	**130 257**	**83%**
Non-controlling interests	188	42	348%
Total equity	**238 383**	**130 299**	**83%**
Non-current liabilities			
Non-current liabilities under bank borrowings and other debt instruments	339 497	77 996	335%
Total non-current liabilities	**339 497**	**77 996**	**335%**
Current liabilities			
Current liabilities under bank borrowings and other debt instruments	137 503	44 144	211%
Trade and other payables	66 947	49 180	36%
Current tax payable	660	1 715	-62%
Employee benefits payable	17 212	14 045	23%
Current provisions	264	174	52%
Total current liabilities	**222 586**	**109 258**	**104%**
Total liabilities	**562 083**	**187 254**	**200%**
Total equity and liabilities	**800 466**	**317 553**	**152%**

Source: the Company

The main sources of operating cash flows of the Group are related to changes in purchased debt portfolios, disclosed under "Change in financial assets at fair value through profit or loss". In the table No. 12 are presented details of cash flows related to expenditure on debt portfolios and cash recoveries from debtors.

As the Group recognises debt purchases under operating activities, the Group's investing activities related to the purchase of debt portfolios and the related increase in carrying fair value of the purchased debt portfolios reduce net cash from operating activities.

4.7 MATERIAL OFF-BALANCE SHEET ITEMS BY COUNTERPARTY, SUBJECT MATTER AND VALUE

The KRUK Group does not have material off-balance sheet items.

4.8 FINANCIAL RATIOS

The EBIT margin was equalled 35% in 2011, having risen 41% year on year. The growth follows from the fact that revenue expanded quicker than operating expenses. The progressive dynamic increase in the Group's net profit over the recent year brought about a strong rise in net margin: from 22% in 2010 to 24% in 2011. The slower growth of net profit relative to EBITDA is primarily attributable to the Group's financial expenses.

Return on assets in the period under analysis declined due to the higher growth rate of the net profit compared with the growth of the Group's assets. The high increase in the value of assets in 2011 (by PLN 483m) resulted primarily from high expenditure on debt purchases. As a consequence, relative to 2010, ROA decreased by 3%, to 8% in 2011.

In 2011, the Group made its debut on the Warsaw Stock Exchange. Despite an increase in total equity, it managed to maintain a high ROE of 28%. This also followed from a significant year-on-year growth of net profit.

In 2011, the debt ratios of the Group remained at safe levels.

In accordance with its capital management policy, the Parent maintains a solid capital base to ensure business growth while maintaining the trust and confidence of investors, lenders and other partners. The Management Board monitors return on equity on an on-going basis to ensure the ratio's high level.

In 2011, the total debt ratio was 70%. The higher total debt ratio is primarily attributable to the increase in debt under notes in issue and borrowings contracted to finance the purchase of large debt portfolios in 2011. As a result, the long-term debt ratio rose to 42%, and the debt to equity ratio was 236%.

TABLE 12. Cash flows
PLN '000

Purchased debt portfolios as at Jan 1 2011	263 228
Purchase of debt portfolios	568 879
Purchase price adjustment for discount	(5 174)
Cash recoveries	(341 122)
Revenue from debt purchase (interest and revaluation)	232 895
Purchased debt portfolios as at Dec 31 2011	718 706
Change in financial assets at fair value through profit or loss relative to cash flows	(455 478)

TABLE 13. Profitability ratios

	PERIOD ENDED DEC 31	
	2011 (AUDITED)	2010 (AUDITED)
EBITDA	33%	24%
EBIT	35%	26%
Gross margin	25%	22%
Net margin	24%	22%
ROA	8%	11%
ROE	28%	28%

Source: the Company

Formulas used to calculate the ratios:
EBITDA – (operating profit for period + depreciation/amortisation) / total revenue
EBIT – operating profit for period / total revenue
Gross margin – pre-tax profit for period / total revenue
Net margin – net profit for period / total revenue
ROA – net profit for period / total assets
ROE – net profit for period / total equity

TABLE 14. Debt ratios

	PERIOD ENDED DEC 31	
	2011 (AUDITED)	2010 (AUDITED)
Total debt ratio	70%	59%
Debt to equity ratio	236%	144%
ROE	41%	33%
Short-term debt ratio	28%	34%
Long-term debt ratio	42%	25%
Current ratio	3.5%	2.7%
Quick ratio	3.5%	2.7%

Source: the Company

Formulas used to calculate the ratios:
Total debt ratio – total liabilities / total equity and liabilities
Debt to equity ratio – total liabilities / total equity
ROE – operating profit/(loss) for period / equity excluding non-controlling interests
Short-term debt ratio – total current liabilities / total equity and liabilities
Long-term debt ratio – total non-current liabilities / total equity and liabilities
Current ratio – total current assets / total current liabilities
Quick ratio – (total current assets - inventory)/ total current liabilities

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

4.9 EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL PERFORMANCE AND PREVIOUSLY PUBLISHED FORECASTS

The KRUK Group has not published any financial forecasts.

4.10 FINANCIAL INSTRUMENTS

4.10.1 USE OF FINANCIAL INSTRUMENTS

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

- Financial assets measured at fair value through profit or loss (purchased debt portfolios – overdue debts purchased by the Group under claim 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 and trade receivables).

The Group holds the following financial liabilities other than derivative instruments: loans, liabilities under debt securities, trade and other payables.

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer 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 Group.

Liquidity risk

Liquidity risk is the risk of potential difficulties that the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets. The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation.

Market risk

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

4.10.2 OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

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

Assets relating to credit risk are presented in the table No. 15.

Financial instruments at fair value through profit or loss

Prior to a debt purchase, the Group performs a thorough analysis taking into account the likelihood of recovery of invested capital and the respective costs of the collection process. Additionally, the Group diversifies the types of

TABLE 15. Objectives and methods of financial risk management
PLN '000

	DEC 31 2011	DEC 31 2010
Financial instruments at fair value through profit or loss	718 706	263 228
Loans	3 222	-
Receivables	16 158	12 526
Cash and cash equivalents	36 205	20 776
	774 291	**296 530**

purchased debt in order to mitigate the insolvency risk of a given group of debtors.

Loans

The Group advances loans to natural persons who previously repaid their debts towards the Group's companies. Thus the Group holds the relevant information on the borrowers' creditworthiness.

Liquidity risk

The Group mitigates the liquidity risk through continuous debt collection which secures uninterrupted cash flows. The Group also monitors and takes actions to ensure proper performance of its borrowing agreements. Debt portfolio purchases involve making large one-off payments. To secure necessary funding, the Group relies on external financing in the form of bank borrowings or notes.

Market risk

In the Management Board's opinion, the market risk relates primarily to the Group's exposure to the risk of changes in the PLN exchange rate against foreign currencies, in particular RON, given the Group's considerable investments in debt portfolios denominated in the Romanian currency. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. The KRUK Group reinvests recoveries from assets on local markets, without converting currencies. The Company does not use financial instruments to hedge the exchange rate risks. The Company does not use interest rate hedges, either.

4.10.3 ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

The Group mitigates the financial resources management risk through continuous debt collection, which ensures uninterrupted cash inflows. The Group relies on external financing, however it also monitors and ensures proper performance under its bank borrowing agreements and other financial liabilities.

In the opinion of the Management Board, there are no significant risks to the Group's current or future financial position related to financial resources management. The Company is able to monitor and service its debts, and manages its financial resources reasonably. For detailed information, see Note 27 to the financial statements.

4.11 IMPORTANT EVENTS WITH A BEARING ON THE GROUP'S OPERATING AND FINANCIAL PERFORMANCE

4.11.1 MATERIAL EVENTS DURING THE FINANCIAL YEAR

One of the milestones in the Group's history was the Parent's debut on the Warsaw Stock Exchange on May 10th 2011, pursuant to Resolution No. 573/2011 of May 5th 2011 of

the Management Board of the Warsaw Stock Exchange, concerning the admission of Series A, AA, B, C and D shares and allotment certificates for Series D ordinary bearer shares to trading on the WSE Main Market.

Then on November 16th 2011, the Parent's **notes debuted on the Catalysts market**. 21 thousand Series J[1] and J[2] notes with nominal value of PLN 21m were introduced to trading. By December 31st 2011, the Company introduced Series I[1], I[2] and I[3] notes to the Catalyst market, with total nominal value of PLN 80m.

In the middle of 2011, the Group commenced operations on the Czech market by purchasing its first debt portfolios in the country and placing them under the management of a new company, Kruk International S.r.o., based in Prague. As part of the first transaction on that market, the Company also purchased some debt portfolios on the Slovakian market, but these are insignificant relative to the Group's financial positions.

In October 2011, the Supervisory Board of KRUK S.A. adopted a resolution approving the purchase of 100% shares in SH Money Ingatlanfinanszírozási és Pénzügyi Zártkörűen Működő Részvénytársaság of Debrecen, Hungary. SH Money holds authorisations to purchase debt portfolios in Hungary, however the company is virtually dormant. The transaction will be closed following its approval by the Hungarian financial regulator.

Other events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in 2011 are discussed in detail in other sections of this report. Such events include primarily significant agreements concluded in the course of business, which are discussed in detail in section "Agreements executed by the KRUK Group."

4.11.2 NON-RECURRING FACTORS AND EVENTS

In 2011, there were no non-recurring factors or events.

5. THE GROUP'S OPERATIONS AND DEVELOPMENT DIRECTIONS

5.1 THE GROUP'S BUSINESS MODEL

The primary area of the Group's operations is collection of consumer debts for financial institutions and other institutional clients, but also for the Group's own account. The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, as well as debt portfolios of landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG and B2B sectors. The Group focuses on the banking market and relies on long-term relations with its key accounts.

The core segments of the Group's operations include:

- purchase and collection of purchased debts (debt portfolios), and
- credit management services.

From 2002 to the end of 2011, the KRUK Group purchased 203 debt portfolios with a total nominal value of approximately PLN 10.7bn. The Group purchases debt portfolios primarily from creditors holding high-volume receivables. The number of debt cases purchased by the Group in 2002–2011 was over 2m, whereas in 2010–2011, the Group purchased 1m cases. Each debt portfolio transferred to the KRUK Group is thoroughly analysed and valued based on details about the debtors, products, related security, behavioural data concerning the debtors, as well as information on current and expected macroeconomic conditions in a given market. Debt portfolios are valued with the use of advanced statistical tools and statistical data on the behaviour of debtors, which the Company has been accumulating since 2003.

Depending on the specifics and status of the debt, as well as client's preferences, the credit management process is tailored to individual needs, and is carried out in a professional manner, in accordance with applicable laws. The Group manages receivables at all stages of delinquency, and applies instruments tuned to a specific debt portfolio (servicing period, tools and process used). The Group makes extensive use of efficient debt collection methods which rely on advanced IT systems, such as the Delfin debt collection platform, which supports the entire credit management process. The Group's innovative offering includes credit reference agency services (ERIF), and legal services provided by the Group's law firm (Kancelaria Prawna RAVEN), enabling the Group to provide a full range of tailor-made loss prevention and collection services, in line with the client's credit management policies.

In 2007, the Group launched its operations on the Romanian market and, in 2011 on the Czech market. The Group's strategy focuses on progressive expansion and strengthening of its position on relevant markets, aiming to achieve a position of the largest debt collection group in Central and Eastern Europe.

5.2 COMPREHENSIVE AND INNOVATIVE PRODUCT AND SERVICE OFFERING.

The Group provides comprehensive and innovative service offering targeted directly at businesses. The offering includes loss prevention services, collection services and other services, including detective and specialist services. All services specified below were provided by the Group in 2011.

Loss prevention services

Provision of payment reports through ERIF

ERIF's Debtor Register is a platform for collecting, processing and providing information on liabilities incurred by individuals and businesses. The functionalities of ERIF's Debtor Register include: checking the credit worthiness of a person or business (positive and negative information in the form of reports), entering delinquent payers in the database, monitoring of individuals' or businesses' creditworthiness, and checking the authenticity of documents. The system contains up-to-date business information and operates on the basis of the Act on Access to Business Information. Since 2010, obtaining information from the ERIF Debtor Register has been available

for consumers through the Infokonsument.pl website, and since 2011, a similar functionality has been offered to businesses through the InfoBiznes.erif.pl. website.

Preventive monitoring

Reminding and monitoring activities are undertaken before the payment deadline. The Group also provides, although to a lesser extent, services related to monitoring of borrowers' financial standing, correctness of provided data, loan-servicing documents, and value of collateral. Preventive monitoring is used to place cases with the largest financial exposure and clients from the highest risk group under special continuous watch.

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. An investigation can be performed in a covert or overt manner with respect to the investigated firm.

Collection services

Collection monitoring

Reminding and monitoring activities are undertaken immediately after the payment deadline. It serves to more effectively predict, control and minimise the level of provisions for non-performing loans, while maintaining a high level of client satisfaction. The objective of collection monitoring is to ensure regular debt repayments and prevent payment delays. Collection monitoring involves quick and frequent contact with debtors. It is usually applied with respect to payments late by 5 to 45 days. This service is performed through the contact centre.

Amicable collection of commercial and consumer debts

The purpose of amicable collection is to recover debt as quickly as possible, using the most effective tools for particular debt categories. In performing this service, the Group relies on a comprehensive array of collection actions and tools. As part of the service, the Group handles cases at any stage of delinquency and with different statuses. Delfin, the proprietary collection system used by the Group, enables it to both provide mass collection services and process all cases in a highly individualised manner.

Doorstep debt collection

The collection process may involve a field negotiator's visit or detective activities at a debtor's domicile or place of business. During a visit, the negotiator and debtor may agree upon the terms of debt repayment or settlement, and the negotiator may also collect cash or collateralised assets. Doorstep collection is 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. In 2011, this organisational unit gained a new mobile tool for on-line scheduling, managing and reporting, which considerably enhanced performance and safety of the debt-collection activities.

Repossession of collateralised assets

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

Administration of mortgage-backed debt cases

Cases involving mortgage-backed debt are handled taking into consideration the nature of high-value debts and the type of collateral. The main principle followed in performing this service is individual approach. Each case is thoroughly reviewed to establish the facts, while collateral and the debtor's financial standing are analysed. Then action is taken to ensure that regular repayments are restored, the debt is restructured/consolidated, the debtor sells the real estate amicably on the free market or the mortgaged real estate is sold in a bailiff auction.

Hybrid services using ERIF's Debt Register

The use of ERIF's Debt Register in the collection process effectively supports collection efforts. The process of amicable collection combined with the possibility of entering the debtor's details in ERIF's Debtor Register is a hybrid service, unique on the Polish market.

Debt collection by way of litigation and enforcement

Litigation and enforcement activities are conducted by Kancelaria Prawna RAVEN, a law firm being a part of the Group. Kancelaria Prawna RAVEN represents the Group and clients in court proceedings initiated to obtain a final court judgment with an enforcement clause, as well as during enforcement procedures. In 2011, debt servicing based on Electronic Proceedings by Writ of Payment was developed and perfected, which contributed to significant improvement of efficiency and enabled the Group or its clients to file several hundred thousand cases with courts.

Pegaz hybrid service

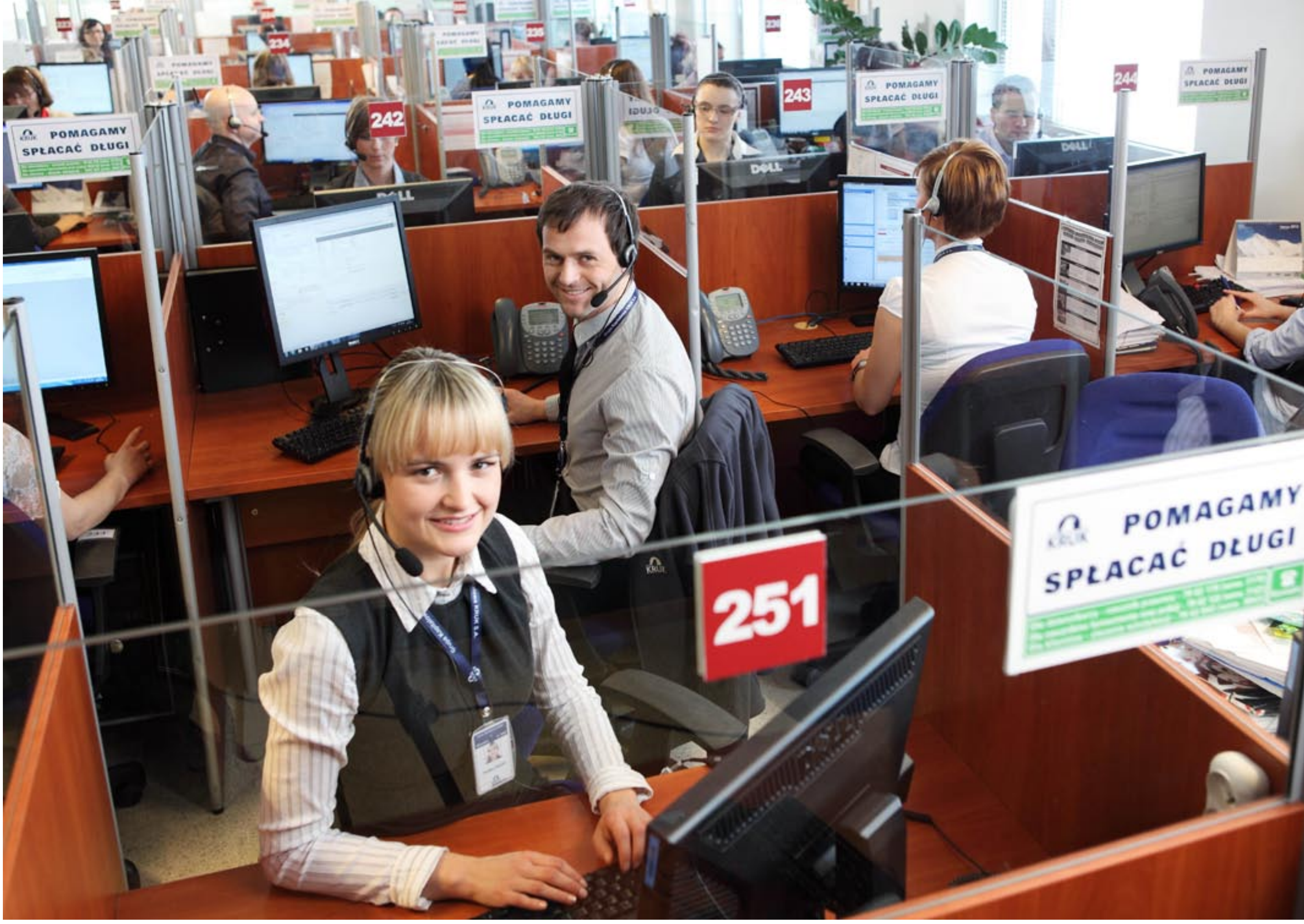
This service consists in using the tools and activities specific to amicable proceedings in a court action, which makes it possible to recover debts more quickly without having to resort to means of state coercion. As part of this service, employees of Kancelaria Prawna RAVEN, specialising in negotiations with debtors, contact the persons against whom a court action is pending in order to persuade them to voluntarily repay their debt without the need to engage a bailiff.

Other services

e-KRUK

e-KRUK is an interactive web-based multimedia service supporting the collection process. Currently it is the only web service on the market designed to help debtors clear their debts. Through e-KRUK, debtors may access information on their debt and take steps to solve their problems on a 24/7 basis.

The e-KRUK functionalities available to debtors include viewing the list of debts which the debtor owes to particular creditors, checking the debt service status, obtaining information on litigation and bailiff collection costs, entering into a fair



settlement, convenient direct link to the bank's website to repay debt, an option to arrange for contact with a negotiator at a convenient time and possibility to quickly update contact details. The e-KRUK platform is available at www.e-kruk.pl.

The Pożyczka Novum loan service

As part of the service, the Group grants short-term cash loans to former debtors who have a track record of repaying their liabilities to the Group in a timely manner. This new service is also intended to diversify the Group's revenue sources. In 2011, KRUK S.A. disbursed 4,675 Novum cash loans with a net value of PLN 6.4m. a Novum loan is typically a 3-15-month credit product of up to PLN 2,500.

5.3 AMICABLE SETTLEMENT STRATEGY FOR DEBT COLLECTION

Since mid-2008, the Group has consistently pursued a strategy based on debt settlement agreements with debtors. Under the strategy, debtors are treated as consumers who are unable to pay debts for reasons beyond their control, and who acknowledge that obligations once incurred must be settled. As a result, the Group gears its debt collection efforts to achieving the optimum solution given the debtor's current financial capabilities (e.g. through instalment-based repayments). The strategy has yielded improved efficiency of the collection efforts and has led to more regular payments by debtors. Since the launch of the amicable settlement strategy for debt collection, the Group has executed over 210 thousand settlement agreements with debtors, including 46 thousand agreements concerning cases purchased in 2011. Implementation of the strategy was supported by a media campaign targeted at debtors, which enhanced the Group's positive image and made it a debt collection company with the highest brand recognition in Poland. In 2011, over 59% of repayments received by the Group were made under amicable debt settlement agreements.

5.4 PROMOTIONAL ACTIVITIES AND IMAGE BUILDING

Image-related activities

In 2011, the Group's activities in the field of image building focused on relations with partner businesses, and involved in particular supporting information and media campaigns targeted at indebted individuals and businesses. Apart from standard activities in these areas, information and advertising initiatives were also pursued in Poland and abroad.

In 2011, the Group's debt collection operations were supported by a series of educational articles in regional and consumer press across Poland and in national dailies, Fakt and Super Express. Throughout 2011, the Group co-authored over 100 press releases, consumer advice articles and individual statements for the press. As a result, over 1000 publications about the KRUK appeared in various media, including the television, the press, the radio and the Internet.

In 2011, the Group held two **press events important the implementation of its strategy:**

- During the first conference, held on September 19th 2011, the Group publicly announced the launch of the third phase of its information and advertising campaign. The Group also presented the Debt Collection January - April 2011 Report, revealing the structure of retail and corporate debts handled by the Company;
- The other press conference was held on November 16th 2011 in connection with the National Debt Freedom Day, celebrated in Poland for the third time. The main objective of the National Debt Freedom Day, an initiative started in 2009 by, among others, KRUK S.A., is to encourage delinquent debtors to repay their debts, either in whole or in instalments. The event is to educate the indebted persons on the importance of sensible household budget management. It is also intended to provide an incentive for action and an opportunity to contact creditors or debt collectors. After the most recent Debt Freedom Day, nearly 130 different publications on the subject appeared in various media, including the television, the press, the radio and the Internet.

Marketing activities

In 2011, the Group's marketing activities were focused on communication with indebted individuals. As part of these activities, two campaigns were carried out, in February-March and September-December 2011. Integrated, multichannel communication with indebted individuals was conducted through commercials broadcast in nationwide TV channels (TVP, TVN and Polsat), advertisements printed in the press of nationwide and regional circulation, as well as by using direct mailing and the Internet channels (website and mailing campaigns).

In September 2011, as part of marketing activities targeted at indebted individuals, a product placement campaign was carried out in one of the most popular and longest running TV series in Poland ("M jak Miłość"). It was the first such product placement in Poland done by a debt collection company.

At the end of 2011, a KRUK brand awareness survey was conducted by TNS Pentor. It's showed that the KRUK brand is recognised be nearly 60% of the Polish people. KRUK is by far the best known and the best recognisable brand in the debt management sector in Poland, as shown by both unaided and aided brand awareness surveys. **Over one year, awareness of the KRUK brand rose by as much as 15%, from 44% in December 2010.**

In 2011, KRUK was a partner of several conference events and debates on debt management, organised by the Conference of Financial Companies in Poland, the Gdańsk Academy of Banking and the Rzeczpospolita daily.

As part of the Group's operations on foreign markets, an information campaign targeted at indebted individuals was carried out by KRUK International in Romania in 2011. This campaign was held in September-December 2011, in the same form as in Poland, including integrated communication through the television, the press, by direct mailing and over the Internet. Also, the Debt Freedom Day was celebrated in Romania for the first time.

5.5 THE GROUP'S GEOGRAPHICAL MARKETS

The Group operates in the Polish market and, since 2007, on the Romanian market. In 2011, the Group launched operations in the Czech market, where it purchased 11 portfolios with a total nominal value in excess of PLN 428m, and opened a head office in Prague, with 24 staff at the end of December 2011. When purchasing Czech portfolios from the Santander Group, the Group also acquired two Slovakian portfolios which do not represent a material asset for the Group.

As at the date of this report, the Group operated throughout Poland. The Company's head office and the registered offices of Kancelaria Prawna RAVEN are situated in Wrocław, where the Group also operates a contact centre, including the associated technical and support facilities. The Company has eight regional branches, seven of which are located in large cities: Gdynia, Bydgoszcz, Poznań, Warsaw, Łódź, Katowice, and Kraków. The Szczawno-Zdrój branch serves both as an operational centre and a back-up facility, with 298 call centre workstations. It employs 362 full-time staff. The Group also runs a number of field offices across Poland, used as support for debt recovery operations. In Romania, the Group has the main office in Bucharest and a contact centre in Targoviste, with 101 workstations. In the Czech Republic, the Group has established and operates an office in Prague, with the first 10 contact centre workstations operational as at the end of 2011.

5.6 GENERAL DESCRIPTION OF CORE BUSINESS AND REVENUE SOURCES

The Group's core business comprises two operating segments:

- Purchase of debt portfolios – collection of debt portfolios purchased for the Group's own account;
- Credit management services – fee-based collection of debt for and on behalf of clients.

The Group focuses on the banking sector Accordingly, the amount of debt collected for the clients and purchased for the Group's own account depends chiefly on the conditions prevailing on financial markets, in particular the level of corporate debt and the related value of non-performing loans. An important feature of the market affecting the volume of Group's revenue is clients' willingness to outsource debt collection; in other words, clients may decide to use their in-house debt collection resources or transfer debt collection to specialised external agents, either under outsourcing arrangements or by selling the debt. The Group operates in the Polish and international markets. Since 2007, it has been present on the Romanian market, and in 2011 it launched operations on the Czech market. A detailed description of key external factors affecting the Group's operations is presented in "Structure and description of the debt collection market".

5.7 AGREEMENTS EXECUTED BY THE GROUP

5.7.1 MATERIAL AGREEMENTS

The following agreements executed by the Group in 2011 may be considered material:

Agreement for the purchase of a debt portfolio, between Secapital S.á.r.l. and BANCA COMERCIALA ROMANA S.A.

On January 11th 2011, Secapital S.á.r.l. (Luxembourg), Group's subsidiary, and BANCA COMERCIALA ROMANA S.A. (Romania) executed an agreement for the purchase of a debt portfolio comprising retail loans and credit card debt. The debt portfolio comprised 21,850 debt claims with a total nominal value (calculated as a sum of principal, interest and costs) of RON 348,592,818.32. As at the agreement date, the net purchase price was set at RON 31,547,650.06 (i.e. PLN 28,787,230.68 translated at the RON mid-exchange rate quoted by the National Bank of Poland for January 11th 2011). The agreement was executed before KRUK securities were admitted to trading on regulated market.

Agreement for the purchase of a debt portfolio between Secapital S.á.r.l. and Raiffeisen Bank S.A.

On March 17th 2011, Secapital S.á.r.l. (Luxembourg), Group's subsidiary, and Raiffeisen Bank S.A. (Romania) executed an agreement for the purchase of a debt portfolio. The debt portfolio comprised 46,580 debt claims with a total nominal value (calculated as a sum of principal, interest and costs) of RON 238,791,039. As at the agreement date, the net purchase price was set at RON 18,386,910 (i.e. PLN 17,951,140.23 translated at the RON mid-exchange rate quoted by the National Bank of Poland for March 17th 2011). The agreement was executed before KRUK securities were admitted to trading on regulated market.

Agreement for the purchase of a debt portfolio between PROKURA NS FIZ and BRE Bank S.A.

On April 26th 2011, PROKURA NS FIZ, Group's subsidiary, and BRE Bank S.A. of Warsaw executed an agreement for the purchase of a debt portfolio. Under the agreement, the price of the portfolio was PLN 96,647,594.70. As at January 31st 2011, the portfolio's nominal value was PLN 600,873,938.71, comprising 58,235 retail debt claims. The agreement satisfied the materiality criterion, as its value exceeded 10% of the Group's revenue for the previous four financial quarters. The agreement was executed before KRUK securities were admitted to trading on regulated market.

Agreement for the purchase of a debt portfolio between PROKURA NS FIZ and PKO BP S.A.

On June 14th 2011, PROKURA NS FIZ, Group's subsidiary, and PKO BP S.A. of Warsaw executed an agreement for the purchase of a retail debt portfolio with a nominal value of PLN 541,494,682.45. Under the agreement, the KRUK S.A. agreed to pay PLN 100,200,000.00 for the debt portfolio as at February 28th 2011. Under an annex of July 18th 2011, the final price of the debt portfolio was set at PLN 96,325,320.94. The portfolio comprised retail debt under overdrafts, cash loans, revolving credit facilities and housing loans. The agreement satisfied the materiality criterion, as its value exceeded 10% of the Group's revenue for the previous four financial quarters. (Current Report No. 24/2011 of June 14th 2011)

Agreement for the purchase of debt portfolios between KRUK S.A., the Parent, and Santander Group companies

On June 27th 2011, the Parent and its subsidiaries: KRUK International S.r.o. and Secapital S.á.r.l. and the Santander Group companies: Santander Consumer Finance a.s. (the Czech Republic), Santander Consumer Leasing S.r.o. (the Czech Republic) and Santander Consumer Holding GmbH (Germany) as the guarantor, executed an agreement for the purchase of six debt portfolios. Pursuant to an agreement of September 26th 2011 executed by The Parent and its subsidiary Secapital S.á.r.l., the rights and obligations under the agreement were transferred from Secapital S.á.r.l. to KRUK S.A.

As a result of the agreements, KRUK S.A. purchased three portfolios of unsecured loans with the following nominal values as at January 31st 2011: two portfolios with a value of CZK 425,184,658 (or PLN 70,283,023.96 translated at the CZK mid-exchange rate quoted by the National Bank of Poland for June 21st 2011) and a portfolio with a value of EUR 4,404,873 (or PLN 17,552,537.93 translated at the EUR mid-exchange rate quoted by the National Bank of Poland for June 21st 2011).

Under the same agreement, KRUK International S.r.o. purchased three portfolios of secured loans with the following nominal values as at January 31st 2011: two portfolios with a nominal value of CZK 693,852,599 (or PLN 114,693,834.62 translated at the CZK mid-exchange rate quoted by the National Bank of Poland for June 21st 2011) and a portfolio with a nominal value as at January 31st 2011 of EUR 8,373,185 (or PLN 33,365,467.59 translated at the EUR mid-exchange rate quoted by the National Bank of Poland for June 21st 2011).

The agreement also defines fees for credit management services performed by the Group in the period prior to the transfer of all rights to the assigned debt to the buyer. The fees are accounted for as part of the payment for the purchased debt.

Transfer of the ownership title to the debts took effect on November 30th 2011 in the case of the CZK-denominated portfolios, and on December 1st 2011 in the case of the EUR-denominated portfolios.

The final price of the acquired debt portfolios, taking into account repayments and debt excluded pursuant to the agreement, was set at PLN 15,633,112. Execution of the agreement was reported by the Company in Current Report No. 29/2011 of June 27 2011. The Company also reports that given the increase in the Group's revenue, which for the last four financial quarters totalled PLN 274,031 thousand as at this Report's release date, the agreement no longer qualifies as a material agreement.

Agreement for the purchase of significant assets between KRUK S.A. and Banca Comerciala Romana S.A.

On June 30th 2011, KRUK S.A. purchased assets of significant value from BANCA COMERCIALA ROMANA S.A. (Romania) under a debt assignment agreement of June 29th 2011. The agreement provides for the purchase by KRUK S.A. of debt with a nominal value of RON 250,794,298.58 for RON 28,841,344.34 (or PLN 27,182,967.04 translated at the RON mid-exchange rate quoted by the National Bank of Poland for June 30th 2011). The purchased debt comprises unsecured retail loans. These assets were considered significant as their value exceeds 10% of the KRUK Group's sales revenue for the last four financial quarters. (Current Report No. 31/2011 of July 1st 2011)

Debt purchase agreement between PROKURA NS FIZ and PTK Centertel Sp. z o.o.

At September 1st 2011, the total net value of agreements executed by and between the KRUK Group and the Telekomunikacja Polska Group in the period from May 5th 2011 r. to September 2nd 2011 (the date of the current report) was PLN 21.67m, which exceeded 10% of the Group's revenue for the previous four financial quarters and thus satisfied the materiality criterion. In terms of value, the largest of these agreements is an agreement of August 31st 2011 between Polska Telefonia Komórkowa – Centertel Sp. z o.o. and PROKURA NS FIZ valued at PLN 11,246,731.47. The agreement provides for the purchase of approximately 43,000 debt claims with a nominal value of PLN 37,627,273.25. The debt purchased under the agreement was incurred by Centertel's former subscribers. (Current Report No. 43/2011 of September 2nd 2011)

Loan agreement between KRUK S.A. and Raiffeisen Bank Polska S.A.

On September 13th 2011, KRUK S.A. and Raiffeisen Bank Polska S.A. executed a PLN 30,000,000.00 revolving facility agreement. The facility is to finance/refinance the purchase of debt portfolios by the Group companies on the Polish and Romanian markets. Under the agreement, the final repayment date is May 29th 2015. The bank's fee was determined on an arm's length basis. The agreement satisfied the materiality criterion, as its value exceeded 10% of the Group's revenue for the previous four financial quarters. (Current Report No. 49/2011 of September 14th 2011)

Agreement for the purchase of a debt portfolio between PROKURA NS FIZ and PKO BP S.A.

On September 22nd 2011, PROKURA NS FIZ, Group's subsidiary, and PKO BP S.A. of Warsaw executed an agreement for the purchase of a retail debt portfolio. Under the agreement, as at June 30th 2011, the debt portfolio comprised 24,915 undisputed and due debt claims arising on various titles, including banking activities carried out by the bank, with a total nominal value (calculated as the sum of principal, interest and costs) of PLN 346,391,211.33. The net purchase price as at the date of the agreement was PLN 72,600,000.00. The agreement satisfied the materiality criterion, as its value exceeded 10% of the Group's revenue for the previous four financial quarters. (Current Report No. 52/2011 of September 22nd 2011)

Agreement for the purchase of significant assets between Secapital S.á.r.l. and Banca Comerciala Romana S.A.

On October 26th 2011, Secapital S.á.r.l. of Luxembourg, Group's subsidiary, purchased assets with a significant value from BANCA COMERCIALA ROMANA S.A. of Romania under to a debt assignment agreement. The agreement provides for the purchase of 12,190 debt claims with a nominal value of RON 198,049,476.85 for a price of RON 23,765,937.22 (or PLN 24,089,153.97 translated at the RON mid-exchange rate quoted by the National Bank of Poland for October 26th 2011). The portfolio comprises debt incurred under consumer loans. These assets were considered significant as their value exceeded 10% of the KRUK Group's revenue for the previous four financial quarters as at October 27th 2011 (the date of the current report). (Current Report No. 65/2011 of October 27th 2011)

Debt assignment agreement between the Parent and Secapital S.á.r.l.

As at November 3rd 2011, the total net value of agreements executed between the Parent, Secapital S.á.r.l. and its subsidiary NS FIZ PROKURA in the period from May 5th 2011 to the date of this report was PLN 58.38m, thus exceeding 10% of the Group's revenue for the previous four financial quarters and satisfying the materiality criterion. In terms of value, the largest of these agreements is the debt assignment agreement of November 3rd 2011 executed by KRUK S.A. and Secapital S.a r.l. The agreement provides for the purchase by KRUK S.A. from Secapital S.a r.l. of three debt portfolios comprising 74,850 debt claims with a total nominal value of RON 927,713,272.54 for PLN 40,373,409.21. The debt purchased under the agreement had been purchased by Secapital S.a r.l. from Banca Comerciala Romana SA and Raiffeisen Bank S.A. (Current Report No. 66/2011 of November 3rd 2011).

Agreement for the purchase of significant assets between Secapital S.á.r.l. and Banca Comerciala Romana S.A.

On November 23rd 2011, Secapital S.á.r.l. of Luxembourg, Group's subsidiary, purchased assets with a significant value from BANCA COMERCIALA ROMANA S.A. of Romania under a debt assignment agreement. The agreement provides for the purchase of 8,872 debt claims with a nominal value of RON 216,289,468.67 RON for a price of RON 24,332,565.22 (or PLN 24,901,947.25 translated at the RON mid-exchange rate quoted by the National Bank of Poland for November 23rd 2011). The portfolio purchased under the agreement comprises debt incurred under consumer loans. These assets were considered significant as their value exceeded 10% of the Group's revenue for the previous four financial quarters as at November 24th 2011 (the date of the current report). (Current Report No. 70/2011 of November 24th 2011)

Agreement for the purchase of a debt portfolio between PROKURA NS FIZ and Bank Zachodni WBK S.A.

On December 5th 2011, PROKURA NS FIZ, Group's subsidiary, and Bank Zachodni WBK of Wrocław executed an agreement for the purchase of two portfolios (Portfolio I, Portfolio II) comprising the bank's receivables from its debtors, i.e. approximately 16,000 debt claims with a nominal value of PLN 228,424,736.92, for a price of PLN 46,223,640.23. The agreement satisfied the materiality criterion, as its value exceeded 10% of the Group's revenue for the previous four financial quarters. (Current Report No. 75/2011 of December 5th 2011)

Loan agreement between the Parent and KRUK International S.R.L.

Following the execution of a loan agreement between KRUK S.A. and its subsidiary KRUK International S.R.L. of Bucharest on December 8th 2011, the total net value of agreements executed between the Group companies and KRUK International S.R.L. in the period from May 5th

2011, i.e. the date KRUK shares were admitted to trading on the stock exchange, to December 8th 2011 was PLN 27.78m, thus exceeding 10% of the Group's revenue for the previous four financial quarters and satisfying the materiality criterion as at December 8th 2011 (the date of the current report). In terms of value, the largest of these agreements is a debt assignment agreement executed on September 19th 2011 by KRUK S.A. and KRUK International S.R.L. The agreement provides for the purchase by KRUK S.A. from KRUK International S.R.L. of a debt portfolio comprising 12,730 debt claims with a total nominal value of RON 93,788,043.02 (or PLN 96,582,926.70 translated at the RON mid-exchange rate quoted by the National Bank of Poland for December 8th 2011) for a price of PLN 9,323,445.91. The debt purchased under the agreement had been acquired by KRUK International S.R.L. from BRD – Groupe Société Générale S.A. (Current Report No. 77/2011 of December 8th 2011)

5.7.2 MATERIAL RELATED-PARTY TRANSACTIONS EXECUTED ON A NON-ARM'S LENGTH BASIS

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

5.7.3 NEW AND TERMINATED LOAN OR CREDIT FACILITY AGREEMENTS

Credit facility agreement with Bank Zachodni WBK S.A.

On April 8th 2011, the Company (as a borrower) and Bank Zachodni WBK S.A. executed a revolving credit facility agreement, whereby Bank Zachodni WBK S.A. granted to the Company a revolving credit facility of up to PLN 80,000,000 to finance or refinance acquisition of debt portfolios on the Polish market by the Company and some of its subsidiaries. Pursuant to the agreement, amounts drawn under the facility bear interest at a variable rate, based on the 1M WIBOR rate plus the Bank's margin set forth in the agreement. Interest is payable on a monthly basis.

The facility is secured with a number of instruments, including a registered pledge and a financial pledge under Polish law, and a financial pledge under Luxembourg law, over Company's shares in its subsidiary, Secapital S.á.r.l. of Luxembourg. The pledge secures 83,172 category E shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 91,490,000. On June 21st 2011, a first-priority pledge on 77,784 category E shares in Secapital S.à.r.l. was established for the benefit of the Bank, through the entry in the share register, in accordance with the laws of Luxembourg. (Current Report No. 28/2011 of June 22nd 2011)

On September 7th 2011, the Company received a decision from the District Court in Wrocław, VII Commercial Division of the Pledge Register issued on August 31st 2011, on entering the pledge in the pledge register. (Current Report No. 47/2011 of September 8th 2011). The agreed repayment date is March 31st 2014. Following the execution of an annex on March 7th 2012, referred to in Section 5.8, the repayment date was extended until February 28th 2015.

Annex to a credit facility agreement with Bank Polskiej Spółdzielczości

On July 26th 2011, the Company executed an annex to a revolving credit facility agreement concluded on July 6th 2010 with Bank Polskiej Spółdzielczości S.A., under which Bank Polskiej Spółdzielczości S.A. granted to the Company a revolving credit facility of up to PLN 10,000,000 to refinance or finance of purchase of debt portfolios by the Company and its subsidiaries. The annex provided for an increase of the amount available under the facility, by PLN 15,000,000 to PLN 25,000,000.

Pursuant to the annex, amounts drawn under the facility bear interest at a variable rate, based on the 3M WIBOR rate plus the Bank's margin set forth in the annex. Interest is payable on a monthly basis.

The facility is secured with a number of instruments, including registered pledge over 24,385 category

D shares in Secapital S.á.r.l of Luxembourg (see Current Report No. 39/2011 of August 19th 2011), a registered pledge on certain debt portfolios held by the Company, and with sureties issued by subsidiaries, i.e. Secapital Polska Sp. z o.o., KRUK Corporate Sp. z o.o., Polski Rynek Długów Sp. z o.o., KRUK International S.R.L. The amount of surety issued by each of these entities is PLN 25m and covers facility interest, fees and other receivables of the Bank under the agreement. For information on the sureties see Current Report No. 35/2011 of July 27th 2011. The agreed repayment date is July 5th 2013.

Credit facility agreement with Raiffeisen Bank Polska S.A.

On September 13th 2011, the Company (as a borrower) and Raiffeisen Bank Polska S.A. executed a revolving credit facility agreement, under which Raiffeisen Bank Polska S.A. granted to the Company a revolving credit facility of up to PLN 30,000,000 to finance or refinance the acquisition of debt portfolios on Polish and Romanian markets by the Company and certain subsidiaries. Pursuant to the agreement, the amounts drawn under the facility bear interest at a variable rate, based on the 1M WIBOR rate plus the Bank's margin set forth in the agreement. Interest is payable on a monthly basis.

The agreement specifies collateral for the credit facility, which includes a financial pledge over Company's shares in subsidiary Secapital S.á.r.l. of Luxembourg under Luxembourg law, and a registered pledge over debt portfolios financed/refinanced by the Bank, under Polish law. As at the date of this report, no security was created in the form of a financial pledge over Company's shares in Secapital S.á.r.l. or a registered pledge over financed/refinanced debt portfolios held by the Company. The agreed repayment date is May 29th 2015.

Issue of debt securities

In 2011, the Company issued unsecured Series G^2, H^1, H^2, I^1, I^2, I^3, J^1, J^2, K^1, K^2, K^3, K^4, L^1 and L^2 notes, with a total nominal value of PLN 291,000,000. The notes were issued at par. In accordance with the terms and conditions of each issue, the notes are ordinary bearer notes in a book-entry form and were entered into a register maintained by a brokerage house or the Polish NDS. Interest is calculated on a 365-day basis. The interest rate of the notes is 3M WIBOR plus a fixed margin determined separately for each series of notes. The interest on the notes will accrue in consecutive three-month interest periods and is payable in arrears, at the end of each interest period.

In 2011, the objective of each issue was to obtain funding for debt purchases by the Group companies.

Issue of series G^2 notes

Under the Management Board's resolutions of March 16th 2011 and March 30th 2011, the Company issued 30,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 30,000,000. The notes are due 24 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series H^1 notes

Under the Management Board's resolutions of March 24th 2011 and April 7th 2011, the Company issued 30,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 30,000,000. The notes are due 30 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series H^2 notes

Under the Management Board's resolutions of March 24th 2011 and April 7th 2011, the Company issued 15,000 notes with a par value of PLN 1,000 per note. The total value of the issue was

PLN 15,000,000. The notes are due 36 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series I[1] notes

Under the Management Board's resolutions of May 16th 2011 and May 25th 2011, the Company issued 25,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 25,000,000. The notes are due 36 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series I[2] notes

Under the Management Board's resolutions of May 16th 2011 and May 25th 2011, the Company issued 38,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 38,000,000. The notes are due 42 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series I[3] notes

Under the Management Board's resolutions of June 17th 2011 and July 5th 2011, the Company issued 17,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 17,000,000. The notes are due 42 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series J[1] notes

Under the Management Board's resolutions of June 28th 2011 and July 11th 2011, the Company issued 10,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 10,000,000. The notes are due 12 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series J^2 notes

Under the Management Board's resolutions of June 28th 2011 and July 11th 2011, the Company issued 11,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 11,000,000. The notes are due 24 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series K^1 notes

Under the Management Board's resolutions of August 25th 2011 and September 6th 2011, the Company issued 20,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 20,000,000. The notes are due 12 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series K^2 notes

Under the Management Board's resolutions of August 25th 2011 and September 6th 2011, the Company issued 25,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 25,000,000. The notes are due 24 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series K^3 notes

Under the Management Board's resolutions of August 25th 2011 and September 6th 2011, the Company issued 35,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 35,000,000. The notes are due 36 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series K^4 notes

Under the Management Board's resolutions of October 18th 2011 and November 4th 2011, the Company issued 20,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 20,000,000. The notes are due 27 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series L^1 notes

Under the Management Board's resolutions of November 28th 2011 and December 5th 2011, the Company issued 10,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 10,000,000. The notes are due 6 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series L^2 notes

Under the Management Board's resolutions of November 28th 2011 and December 5th 2011, the Company issued 5,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 5,000,000. The notes are due 12 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Redemption of debt securities

In 2011, the Company redeemed the following debt securities at maturity:

- 12,500 series F1 notes at par value for a total amount of PLN 12,500,000. The redemption date was July 15th 2011;
- 17,500 series F2 notes at par value for a total amount of PLN 17,500,000. The redemption date was September 2nd 2011.

Liabilities under debt securities

As at December 31st 2011, liabilities under notes issued by the Company by the end of 2011 (at par value) amounted to PLN 356,882,000.

5.7.4 LOANS ADVANCED AND SURETIES GRANTED. SURETIES AND GUARANTEES RECEIVED.

Loans advanced by KRUK S.A. to subsidiaries

In 2011, KRUK S.A. granted loans to its subsidiaries for a total value of PLN 26.3m (as translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates). The loans were advanced to Kruk International S.R.L. of Bucharest and Kruk International S.r.o. of Prague. The loans bear interest at 3M WIBOR plus margin. The agreed maturity of the loans ranged from 19 days to one year.

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

The loans were granted to KRUK International S.R.L. of Bucharest to finance debt purchases or operating activities. The value of loans contracted to purchase debt portfolios was RON 8.4m (i.e. PLN 8.6m, as translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates). The value of loans contracted to finance operating activities was RON 5.4m (i.e. PLN 5.4m, as translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates).

As at December 31st 2011, all KRUK International S.R.L.'s liabilities towards KRUK S.A. under the loans advanced were repaid.

Loans advanced to KRUK International S.r.o. of Prague

The loans were granted to KRUK International S.r.o. of Prague to finance debt purchases or operating activities. The value of loans contracted to purchase debt portfolios amounted to EUR 0.5m (i.e. PLN 2.1m, as translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement date) and CZK 50.7m (i.e. PLN 9.0m, as translated into PLN). The value of loans contracted to finance operating activities amounted to EUR 0.3m (i.e. PLN 1.1m, as translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates).

As at December 31st 2011, KRUK International S.r.o.'s liabilities towards KRUK S.A. under loans due amounted to PLN 12.1m (as translated into PLN at the exchange rates quoted by the National Bank of Poland for December 31st 2011).

Loans advanced by KRUK S.A. under the Novum project

In 2011, KRUK S.A. granted 4,675 Novum cash loans with a net value of PLN 6.4m. Under the Novum project, consumer loans are granted of up to PLN 2,500 for periods from 3 to 15 months. The Novum service was designed for KRUK's debtors who have repaid their debts but remain excluded from the banking market.

Guarantees

Bank guarantee issued by Alior Bank S.A.

On January 19th 2011, KRUK S.A. and Alior Bank S.A. executed an annex to the agreement of January 21st 2010 on terms of the bank guarantee issued by the Bank to secure KRUK S.A.'s payments under the agreement for the lease of office space at ul. Legnicka 56 from Legnicka Business House Sp. z o.o.

Under the annex, the guarantee term was extended by one year, from January 25th 2011 to January 24th 2012, and the guarantee amount was increased from EUR 83,302 to EUR 167,000. The guarantee was issued for the benefit of Legnicka Business House Sp. z o.o.

The Bank charges commission on the guarantee at a fixed interest rate set forth in the agreement.

The guarantee is secured with a cash deposit in the amount of PLN 440,000 plus interest accrued on the deposit.

Insurance guarantee issued by Towarzystwo Ubezpieczeń Europa S.A.

On February 25th 2011, KRUK S.A. and Towarzystwo Ubezpieczeń Europa S.A. executed an agreement for an insurance guarantee with respect to the performance by KRUK S.A. of its obligations under the lease of office space at Wrocławski Park Biznesu 2 at ul. Wołowska 4 from Devco Sp. z o.o.

Under the guarantee agreement, Towarzystwo Ubezpieczeń Europa S.A. issued a guarantee for the period from February 25th 2011 to February 24th 2012. The amount of the guarantee is EUR 94,649.01. The guarantee was issued for the benefit of Devco Sp. z o.o.

Sureties

Annexes to the sureties issued by subsidiaries with respect to repayment by KRUK S.A. of its liabilities under the revolving credit facility agreement concluded with Bank Polskiej Spółdzielczości S.A.

On July 26th 2011, the following subsidiaries: Secapital Polska Sp. z o.o., Kruk Corporate Sp. z o.o. (currently: ERIF Business Solutions Sp. z o.o.), PRD Sp. z o.o. (currently: Novum Finance Sp. z o.o.) executed an annex to the surety agreement concerning KRUK S.A.'s liabilities under the credit facility agreement concluded between KRUK S.A. and Bank Polskiej Spółdzielczości S.A. The annexes were executed following an increase of the revolving credit facility limit from PLN 10,000,000 to 25,000,000 under an annex to the credit facility agreement on July 26th 2011. The sureties issued by the subsidiaries expire upon full repayment of the credit facility with interest, fees and other receivables of the Bank under the credit facility agreement. For information on the annexes, see Current Report No. 35/2011 of July 27th 2011.

Surety issued by a subsidiary with respect to repayment by KRUK S.A. of its liabilities under the revolving credit facility agreement concluded with Bank Polskiej Spółdzielczości S.A.

On July 26th 2011, KRUK International S.r.l. issued a surety with respect to KRUK S.A.'s liabilities under the revolving credit facility concluded with Bank Polskiej Spółdzielczości S.A. The surety covers liabilities up to PLN 25,000,000, including accrued interest, fees and other receivables of the Bank under the credit facility agreement. The surety issued by KRUK International S.r.l. expires upon full repayment of the credit facility, including interest, fees and other receivables of the Bank under the credit facility agreement. For information on the surety, see Current Report No. 35/2011 of July 27th 2011.

5.8 IMPORTANT EVENTS AFTER DECEMBER 31ST 2011

In the period from January 2012 to the date of this report, there were no significant changes in the financial or trading position of the Group, save for the following:

- In January 2012, 22,639 Series M investment certificates with a value of PLN 7.37 per certificate as at the measurement date, and 2,080,481 Series K investment certificates with a value of PLN 7.37 per certificate as at the measurement date issued by PROKURA NS FIZ were redeemed. In February 2012, 1,604,097 Series M investment certificates with a value of PLN 7.53 per certificate as at the measurement date issued by PROKURA NS FIZ were redeemed;
- All the certificates were held by SECAPITAL S.à.r.l. of Luxembourg (SECAPITAL), Group's subsidiary. Following the transaction, SECAPITAL continues to hold 55,278,698 investment certificates issued by PROKURA NS FIZ in Series C–J and Series L–P;
- Upon the redemption, SECAPITAL received cash in the amount of PLN 27,578,845, representing the total value of the certificates. The carrying amount of these certificates recognised in SECAPITAL's accounting books was PLN 25,247,693. Cash received upon the redemption of the certificates was allocated by SECAPITAL to dividend payment for the Parent;
- In February 2012, there was a change in the structure of the Group following registration of the change of a subsidiary's name from Polski Rynek Długów Sp. z o.o. to Novum Finance Sp. z o.o. (decision of the District Court for Wrocław-Fabryczna of February 15th 2012);
- On February 13th 2012, the Company's Management Board adopted Resolution No. 2/2012 on the issue of unsecured Series M1 bearer notes. Pursuant to the Resolution, the Company intends to issue, by June 30th 2012, unsecured notes with a total value of up to PLN 70.0m. Proceeds from the issue will be applied towards the financing of debt purchases by the Group. The Supervisory Board approved the issue by virtue of Resolution No. 1/2012 adopted in writing;
- On March 8th 2012, the Company's Management Board adopted Resolution No. 8/2012 on the issue of unsecured Series N1 bearer notes. Pursuant to the Resolution, the Company intends to issue, by June 30th 2012, unsecured notes with a total value of up to PLN 50.0m. Proceeds from the issue will be applied towards the financing of debt purchases by the Group or refinancing of the Company's debt. The notes issue was approved by the Supervisory Board by virtue of Resolution 6/2012 adopted in writing.

In the terms and conditions of the issue of Series M1 and Series N1 notes, the Issuer undertook to maintain its Debt Ratio at up to 2.5, and the ratio of consolidated Net financial debt /cash EBITDA at a consolidated level of up to 4.0, where:

- **Debt Ratio:** Net financial debt to equity, where: (i) Net financial debt means the Group's Financial liabilities less the Group's cash and (ii) equity is the equity of the KRUK Group;
- **Financial liabilities:** total financial liabilities under notes or other similar debt securities, borrowings, bank loans, financed lease, promissory notes issued, guarantees and sureties granted (to entities outside the Group), accession to debt or takeover of liabilities, or under derivative transactions;
- **Cash EBITDA** pre-tax profit (loss) increased by: finance expenses, depreciation and amortisation, cash inflows from revenue from debt purchase and reduced by income on the revaluation of assets other than purchased debt portfolios and consumer loans granted if their total value for the previous 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group, for the previous 12 months. These ratios will be computed based on the Group's consolidated financial statements prepared in accordance with the IFRS as at the end of each calendar quarter.
- On March 7th 2012, the Parent executed an annex to the revolving credit facility agreement concluded on April 8th 2011 with Bank Zachodni WBK S.A., whereby Bank Zachodni WBK S.A. granted to the Company a revolving credit facility of up to PLN 80,000,000 to refinance or finance debt purchases by the

Parent and its subsidiaries. The execution of the annex was reported by the Company in its Current Report No. 7/2012, dated March 7th 2012. The subject matter of the annex is:

- extension of the facility's maturity by 11 months, that is until February 28th 2015;
- advance of a PLN 60,000 000 Supplementary Facility maturing on March 6th 2013.

Pursuant to the annex, the amounts drawn under the facility bear interest at a variable rate, based on the 1M WIBOR rate plus the Bank's margin set forth in the agreement or the annex. Interest is payable on a monthly basis.

The Facility and Supplementary Facility are secured with multiple instruments, including a registered and financial pledge under the Polish law and a pledge under the Luxembourg law, established on shares in the Luxembourg-based subsidiary Secapital S.á.r.l (see Current Report No. 28/2011 of June 22nd 2011 and Current Report No. 47/2011 of September 8th 2011).

5.9 DEVELOPMENT DIRECTIONS AND PROSPECTS OF THE GROUP

The Company's key strategic development goals for 2012-2015 are as follows:

- Maintain the leading position of the debt collection market in Poland in both credit management and debt purchase segments;
- Expand into foreign markets;
- Develop of new products.

Below is presented an outline of the Group's strategic objectives along with a description of steps to be taken to implement the main objectives of the strategic plan for 2012–2015.

Maintaining the leading position on the Polish market

The Group intends to hold its position of the leader of the Polish debt collection market by focusing on its most attractive segment, i.e. collection of retail debt owed to banks, while taking advantage of the benefits offered by synergies and economies of scale following from its integrated business model and the provision of services to clients from other sectors. The Group plans to achieve these goals through the following measures:

Ongoing optimisation of the collection process as a source of competitive advantage, to be achieved through:

- Improvement of cost efficiency, including as a result of the development of IT systems supporting the work of collection personnel;
- Further development of statistical analysis skills;
- Use of the ERIF's Debtor Register database to improve the effectiveness of collection efforts;
- Continuous and progressive enhancement of operating methods and implementation of best practices as an element of the collection process management.

Enhancing competitive advantages in debt collection services through:

- Strengthening of the relationships with strategic clients;
- Promoting of deep integration with clients (including integration of IT systems);
- Development of advanced (non-standard) collection services.

Building a strong market position in collection of corporate debt

- Development of a dedicated process and organisation based on the experience in collection of corporate debt;
- Development of skills in the area of collateral repossession and enforcement of claims against collateral.

Selective foreign expansion

The Group plans to actively participate in the development of collection services in Central and Eastern Europe, including through expansion into the Hungarian and Czech markets.

The successful implementation of the Group's business model in Romania proves that it can be replicated in foreign markets and confirms, in the Company's opinion, the effectiveness of the Group's organisation and strategy.

The objectives of the foreign expansion strategy are as follows:

- Maintain the leading position on the Romanian market;
- Further strengthen the Group's market position in the Czech Republic;
- Enter new markets through a start-up business or acquisitions;
- Replicate the tried-and-tested business model in selected new markets.

In 2011, the Group entered the Czech market by purchasing debt portfolios and launching a local contact centre. The Group plans to launch operations on the Hungarian market in 2012. The Group's long-term objective is to become a leading player on the markets of Central and Eastern Europe.

Development of new products

One of the directions of the Group's development strategy is to focus on a continuous search for and building of new growth areas based on the Group's existing competitive advantages. As at the date of this report these include:

Continued implementation of the Novum project (Novum loans)

The Company intends to use its database of debtors' credit history for the purposes of the Pożyczka Novum cash loan project. The loan is addressed to persons excluded from the banking market. As the date of the report, the Group had nearly two million retail debtor cases, including 980 thousand cases purchased in 2010–2011.

Continued development of the ERIF resources

ERIF, operating as a credit reference agency within the Group, provides significant support for the Group's collection activities. The Group's

ambition is to create Poland's largest database of debtors, both consumers and businesses, as a platform for business information trading.

5.10 NEW PRODUCTS AND SERVICES

In 2011, the Group launched the following new services:

- The Infobiznes.erif.pl web service dedicated to small and medium-sized enterprises, through which it is possible to retrieve information from and post information to the ERIF Debtor Register on a 24/7 basis;
- The Prepaid Card service for small and medium-sized enterprises, offering access to the database of the ERIF Debtor Register via prepaid cards.

5.11 THE GROUP'S INVESTMENT PROGRAMME

5.11.1 CAPITAL EXPENDITURE

In 2011, capital expenditure incurred by the Group included primarily expenditure on vehicles (PLN 3,777 thousand) and computer hardware (PLN 3,048 thousand). The Group also made material investments in licences and computer software (PLN 3,530 thousand), including proprietary software with a value of PLN 2,180 thousand.

5.11.2 INVESTMENTS WITHIN THE GROUP

In 2011 the Company increased capital in KRUK International Srl:

- On 30 June by converting a loan into shares (PLN 277,000) and by amortising a loan of PLN 667,000;
- On 31 December 2011 by amortising a loan of PLN 4,499,000.

Also, in 2011, the share capital of Secapital Sarl was reduced by a total amount of PLN 28,182,000, and increased by a total of PLN 341,364,000.

Intragroup capital expenditure and related transactions are described in detail in the consolidated financial statements for 2011. Material intragroup agreements are described in section "Agreements executed by the Group".

5.11.3 ASSESSMENT OF THE FEASIBILITY OF INVESTMENT PLANS

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

5.12 RISK FACTORS – INTERNAL FACTORS

5.12.1 MATERIAL RISK FACTORS

Risk of failure to achieve the Group's strategic objectives

The Group's growth strategy is presented in section "Development directions and prospects of the KRUK Group". The implementation and delivery of the Group's strategy depend on a number of factors beyond the control of the Group, in particular market conditions, economic environment, force majeure events, availability and terms of financing, changes in legislation or its interpretation, actions taken by regulatory bodies, decisions made by the Company's shareholders at General Meetings, as well as on the strategy and activities of the Group's main competitors. Moreover, errors may be made by the persons responsible for the implementation and delivery of the strategy, relating in particular to the assessment of market conditions or identification of appropriate investments, including investments in debt portfolios acquired by the Group, which may result in wrong decisions. In addition, there can be no assurance that particular projects and investments carried out in pursuit of the strategy will not fail to yield the intended results over the assumed time horizons, or such projects or investment will not be carried out at all or will generate losses.

The Group's development strategy provides in particular for increasing revenues as a result of, inter alia, expansion into new geographical markets in Central and Eastern Europe. Entering a new market involves expenditure on adapting the range of offered services to the local requirements (including consideration of legal barriers on the local markets) and developing completely different sales strategies. In addition, potential cultural differences between the existing and planned markets of the Group should be taken into account. There is a risk that benefits related to entering new markets may not be achieved, may be smaller than expected, or may be achieved over a longer period than assumed by the Group.

Failure to achieve any or all of the Group's strategic objectives within the assumed timeframes or the occurrence of any of the above-described circumstances may have a material adverse effect on the Group's operations, financial standing or performance.

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

The core business of the Group includes purchase of debt portfolios for the Group's 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. This risk applies in particular to debt portfolios purchased on new markets, where the Group has not invested before. An additional factor affecting the risk of error in estimating cash flows on foreign markets are potential fluctuations of currency exchange rates. Any weakening or strengthening of a foreign currency against PLN may translate into higher or lower payments, respectively, expressed in PLN.

Operational risk related to the Group's business

The Group has a quality assurance policy and operating procedures in place. However, the Group is subject to the risk of incurring a loss or unexpected costs due to inadequate or unreliable internal processes, human errors, operational systems, or external events, such as errors in the recording of business events, business disruptions (as a result of various factors, e.g. hardware failures, software failures, communication disruptions), damage to the Group's assets, fraud, illegal action or omission by the Group's employees or other entities for whose actions or omissions the Group is responsible.

Debt risk

The KRUK Group uses and intends to use in the future bank loans, notes 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 financing 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 maybe 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.

Risk of losing experienced management staff

The Group operates a business where human resources and staff qualifications are a vital asset and one of the key success drivers. The knowledge, skills and experience of the Management Board members and other key personnel of the Group are factors of critical importance for the Group's strategic interests.

Resignation of any Management Board member or other staff important for the Group could have an adverse effect on the Group's operations, and consequently on its financial performance and development prospects.

Risk of IT systems' failure

A key asset of the Group and an element crucial for its market success are the modern technologies it applies, based on advanced IT systems, which facilitate a smooth execution of debt collection processes and valuation of debt portfolios. The systems used by the Group include the

Delfin debt collection platform, a billing system, a Management Information System, a contact centre, the e-KRUK web service, and other. A potential loss of all or part of data due to failure of the computer systems used by the Group could have an adverse effect on the Group's day-to-day operations. The security of the IT systems is also important given the need to protect the personal data of debtors. Failure of any of the IT systems used by the Group or the occurrence of any of the above circumstances may have an adverse effect on the Group's operations.

Risk connected with related party transactions

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

Credit risk

Credit risk (commercial risk) arises when a client or the counterparty to a transaction involving financial instruments fails to meet its contractual obligations. In such circumstances the Group may incur a financial loss.

Risk of negative PR in relation to the Group

The risk of negative PR in relation to the KRUK Group follows from a potential publication or distribution of untrue or unfavourable information concerning its operations.

There can be negative publicity concerning the Group's debt collection activities, designed to create a negative image of the Group and affect its credibility with the existing and potential business partners.

In particular, the Group may be exposed to negative publicity if a suicide threat is carried out by a debtor whose debt the Group seeks to recover. In the course of its business the Group deals with debtors in a difficult financial and personal situation. Some of them cannot cope with the accumulating financial, family, health or employment issues. Some of the debtors suffer from depression or undergo psychiatric treatment. In letters or on the phone they declare that they intend to commit suicide because of the amount of problems they have. In such special cases an attempt to contact such persons during the collection process, even if made in compliance with the highest service standards, may be a trigger causing the debtor to carry out their threat. The Company estimates that each month it deals on average with a dozen or so suicide threats. The Group is not aware of any suicide threat carried out by a debtor whose debt the Group was to recover. None of such threats are disregarded. They all are carefully analysed and the procedures applied by the Group also include reporting suicide threats to the police. However, no assurance can be given that in the future, as the scale of the Group's business grows and the debt spiral builds up, the number of suicide threats by debtors whose debts are collected by debt collectors (including the Group) will rise or such threats may be fulfilled. In consequence, explanatory and other proceedings may be initiated, in particular by public administration bodies.

5.12.2 RISK MANAGEMENT SYSTEM

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

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

The risk management policies in place at the Group are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the Group. The Management Board is responsible for defining risk management procedures and overseeing their implementation.

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

Management of credit risk relating to debt purchase activities

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

- Detailed 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, representing different degrees of difficulty and delinquency statuses.

Management of credit (trade) risk

Credit risk is the risk of incurring a financial loss if a client or a counterparty to a financial instrument fails to perform contractual obligations. Credit risk is primarily connected with accounts receivable from counterparties.

The Group's credit policy followed in client relations includes the following components:

- Assessment of each client's creditworthiness prior to offering payment dates and other terms of the agreement;
- Regular monitoring of payment timeliness;
- Diversification of the client base (in 2011, revenue from the Group's largest client represented 2.6% of total revenue).

The credit policy followed in debt portfolio purchases includes the following tools:

- 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, representing different degrees of difficulty and delinquency statuses.

Management of liquidity risk

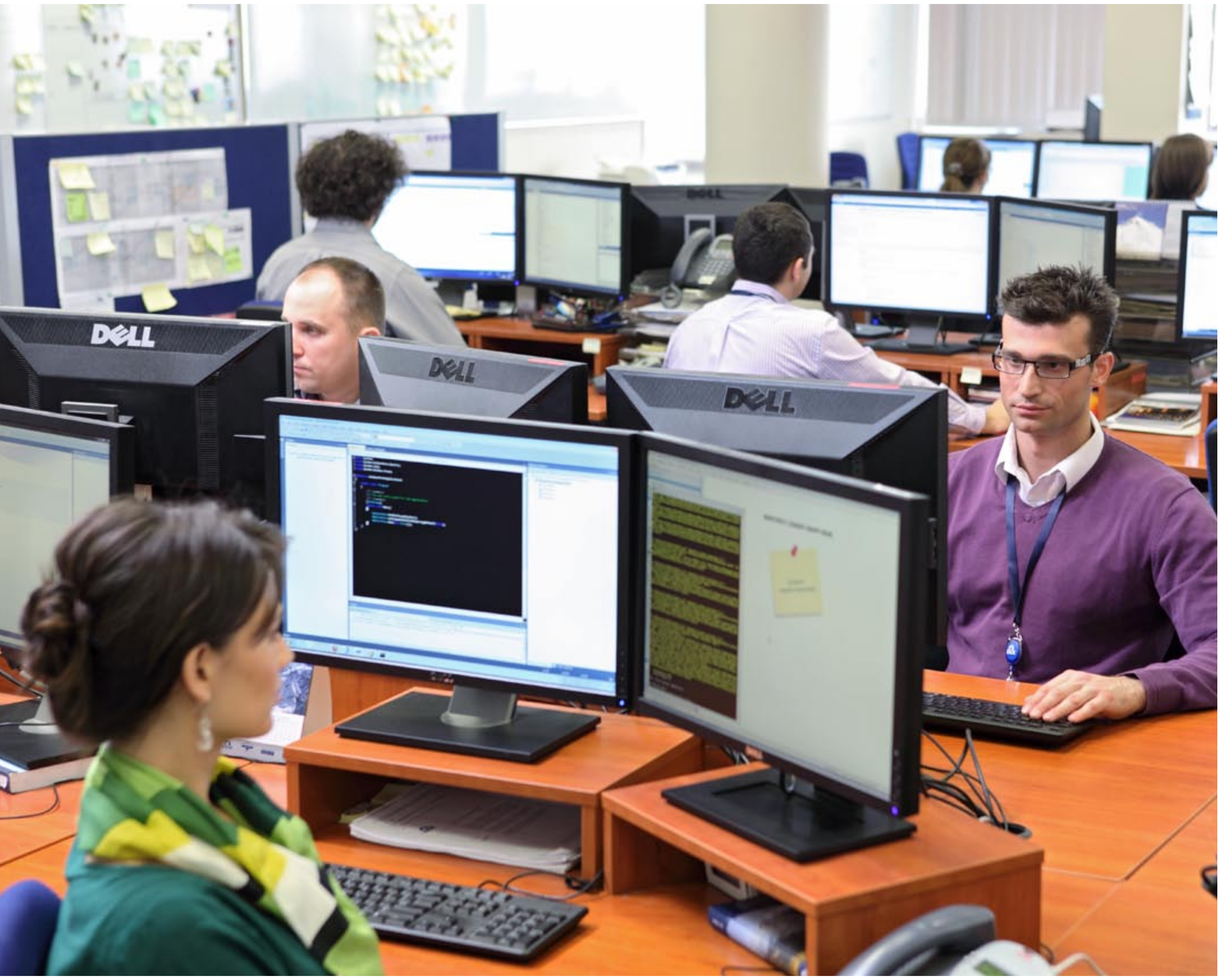
Liquidity risk is the risk of the occurrence of a situation where the Group faces difficulties in meeting its financial liabilities that are to be settled by way of delivering cash or other financial assets. The liquidity risk management policy is designed to ensure that the Group has sufficient liquidity to meet its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.

Liquidity risk management tools used at the Group include:

- Regular monitoring of cash requirements and expenses;
- Flexible management of cash flows between the Group entities;
- Conducting collection activities on an on-going basis, ensuring continuous cash inflow;
- Actions designed to ensure that the Group meets financial covenants under financing agreements;
- Use of external sources of financing, in the form of bank borrowings or notes.

Management of market risk

Market risk results from the sensitivity of the Group's performance to market factors such as exchange rate, interest rate and stock price movements. The objective of the market risk management policy implemented at the Group is to control and maintain the Group's exposure to market risk within the assumed values of parameters, while simultaneously optimising the rate of return.



Management of operating risk

Operating risk is connected with the possibility of incurring losses for reasons pertaining to the Group's procedures, personnel or technologies, as well as losses caused by external factors such as legal regulations or generally accepted standards of corporate governance.

The Group's operating risk management policy is designed to balance loss prevention with overall cost efficiency, while ensuring that control procedures are not expanded to the point where they constrain employees' initiative and creativity.

Selected control procedures and mechanisms implemented at the Group in the area of market risk management are:

- Appropriate division of responsibilities and correct authorisation of transactions;
- Procedures for reconciliation, documentation and monitoring of transactions;
- Procedures for periodic assessment of operating risks and adaptation of the relevant monitoring and control methods;
- Requirements with respect to reporting on operating losses and proposed remedies.

SUCCESS in climbing
a **MOUNTAIN**
is a **RESULT**
of a well thought over
STRATEGY,
determination
and PASSION.

6. CORPORATE GOVERNANCE

6.1 STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

Acting under the Regulation on current and periodic information, the Management Board of the Company hereby presents the Statement of compliance with corporate governance standards in 2011.

6.1.1 ADOPTED CODE OF CORPORATE GOVERNANCE

The Company is subject to corporate governance standards described in the Code of Best Practice for WSE Listed Companies (Corporate Governance Standards), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 20/1287/2011 of October 19th 2011. The document is publicly available on the website of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) dedicated to corporate governance (http://www.corp-gov.gpw.pl).

In connection with the admission to trading (on May 5th 2011) and the first listing (on May 10th 2011) of Company series A, AA, B, C and D Shares on the Warsaw Stock Exchange, on April 6th 2011 the Company's Management Board adopted a resolution containing a representation that the Company and its governing bodies observe the corporate government standards set in Code of Best Practice for WSE Listed Companies within the scope specified in the appendix to the resolution. The text of the appendix, which includes Code of Best Practice for WSE Listed Companies along with the declared scope of the Company's compliance with the standards set out in the document, is available on the Company's website in the For Investors/Company section. The document also contains corporate government standards which the Company elected to comply with voluntarily.

6.1.2 CORPORATE GOVERNANCE STANDARDS WHICH THE COMPANY ELECTED NOT TO COMPLY WITH

As per the Management Board's statement, the Company declared compliance with corporate governance standards set forth in the Code of Best Practice for WSE Listed Companies with certain exceptions. The Company elected not to comply with the following standards:

Regarding the rule set out in part I, section 1 of the Code whereby a company should pursue a transparent and effective information policy using both traditional methods and modern technologies, the Company stated that it would not fully comply with the rule recommending companies to enable on-line broadcasts of general meetings over the Internet, record general meetings, and publish the recordings on the company website. For the time being, a decision to comply with that recommendation would require the Company to incur too much expenditure on appropriate technical infrastructure which, in the Management Board's opinion, is not justified. In addition, non-compliance with the recommendation is intended to protect the shareholders, who have the right to refuse publication of their images and discussions recorded during General Meetings. However, the Company is considering the option to record its General Meetings and publish the recordings on its website. Moreover, the Management Board declares that – should a wider group of shareholders so request – it will take every effort to comply with the rule in its entirety.

Regarding the rule whereby a company should have a remuneration policy and rules of defining that policy, the Management Board informs that the Company did not implement a remuneration policy for Management and Supervisory Board members. The rules governing remuneration for Management Board members are defined in accordance with Par. 2.8 of the Rules of Procedure for the Management Board, i.e. by the Company's Supervisory Board. Based on these rules, the President of the Management Board proposes the amounts of remuneration for individual Management Board members other than the President, and submits the proposals to the Supervisory Board for approval. Remuneration of Supervisory Board members is determined by the General Meeting pursuant to Par. 12.5 of the Company's Articles of Association. The amounts

of remuneration for members of the Company's governing bodies are disclosed in its annual reports. However, the Company is considering the development of a remuneration policy and rules of defining that policy at some point in the future.

In 2011, the Company did not observe the recommendation set out in part II, section 1.7) of the Code of Best Practice for WSE Listed Companies, concerning publication on the corporate website of shareholders' questions on matters on the agenda submitted before and during a general meeting together with answers to those questions. The Company's position is that minutes of General Meetings should be taken by a notary public. A decision to include particular matters in the agenda rests with the Chairperson of the General Meeting, taking into account the applicable laws and circumstances of each case, with due regard to the interests of shareholders. Pursuant to the Commercial Companies Code, participants of a General Meeting have the right to submit written statements, which are attached to the minutes. The Company is also under an obligation to publish resolutions adopted during General Meetings. The Company's position is that the above requirements fully ensure transparency of the General Meeting. However, the Company declares that – should a wider group of shareholders so request – it will make every effort to implement the standard at the Company.

Regarding the obligation to have its website available in English, in 2011 the Company complied with that rule with certain exceptions. In line with the representation made by the Company, the English version of its website contains key corporate documents, annual reports, quarterly reports to the extent relating to the Company's financial performance (financial statements), as well as times, venues and agendas (without resolutions or their drafts) of General Shareholders Meetings. In the Company's opinion, the availability of the above information in English adequately protects the interests of its existing shareholders. However, if the Company is advised by its shareholders of the need to extend the scope of information available in English, it is prepared to publish on its website the English language version of all information specified in the Code.

6.2 SHAREHOLDER STRUCTURE

6.2.1 SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY LARGE BLOCKS OF SHARES IN KRUK S.A.

As at December 31st 2011, the structure of shareholders holding directly or indirectly large blocks of shares in KRUK S.A. was as in the table No. 16 (based on shareholder notifications received by the Company).

In accordance with a notification received by the Company on June 1st 2011 and published in Current Report No. 16/2011 of June 1st 2011, PEF IV is entitled – based on the powers of proxy from its shareholders – to exercise the voting rights attached to 748,000 ordinary bearer shares, representing 4.4% of the Company's share capital and 4.4% of the total vote at its General Meeting. Accordingly, PEF IV is entitled to exercise voting rights attached to 4,944,550 ordinary bearer shares, representing in aggregate 29.3% of the Company's share capital and carrying the rights to 4,944,550 votes, or 29.3% of the total vote, at the Company's General Meeting.

6.2.2 CHANGES IN LARGE SHAREHOLDINGS IN 2011:

Shareholder structure as at December 31st 2010.

TABLE 17

Polish Enterprise Fund IV LP	12 396 550 shares
Piotr Krupa	2 655 790 shares
Other members of the Management Board	107 590 shares
Other shareholders	148 890 shares

On February 9th 2011, the District Court for Wrocław – Fabryczna in Wrocław registered an increase of the Company's share capital to PLN 15,800,340. The increase was effected through an issue of 491,520 new Series C ordinary shares, which were acquired, among others, by members of the Company's Management Board. Consequently, as of February 9th 2011 the shareholder structure was as in the table No. 18.

TABLE 18

Polish Enterprise Fund IV LP	12 396 550 shares
Piotr Krupa	2 655 790 shares
Other members of the Management Board	429 880 shares
Other shareholders	318 120 shares

TABLE 16. KRUK S.A. shareholder structure as at Dec 31 2011

SHAREHOLDER	AS AT DEC 31 2011	
	NUMBER OF SHARES/ VOTES AT THE GENERAL MEETING	% OF SHARE CAPITAL AND THE TOTAL VOTE AT THE GENERAL MEETING
Polish Enterprise Fund IV, private equity fund managed by Enterprise Investors	4 196 550	24.83
Piotr Krupa	2 655 790	15.71
Generali Otwarty Fundusz Emerytalny	866 101*	5.12
ING Otwarty Fundusz Emerytalny	863 333**	5.11

* in accordance with a notification received on August 8th 2011
** in accordance with a notification received on October 24th 2011

Further changes in the share capital took place when Company shares were admitted to trading on the stock exchange by the Management Board of the Warsaw Stock Exchange on May 5th 2011. The Company shares were first listed on the Warsaw Stock Exchange on May 10th 2011. On May 23rd 2011, following an issue of Series D shares, the share capital was increased to PLN 16,900,340.00. Moreover, there were changes in the holding of Company shares by its principal shareholder – Polish Enterprise Fund IV LP. Following the changes described above, the shareholder structure was as in the table No. 19.

TABLE 19

Polish Enterprise Fund IV LP	4 196 550 shares
Piotr Krupa	2 655 790 shares
Other members of the Management Board	429 880 shares
Other shareholders	9 618 120 shares

On August 8th 2011, the Company received a notification from Generali Otwarty Fundusz Emerytalny of exceeding the 5% threshold of the total vote at the General Meeting. In accordance with the notification, after a change in shareholding, Generali Otwarty Fundusz Emerytalny holds 866,101 shares in KRUK S.A., representing 5.12% of the Company's share capital and 5.12% of the total vote at its General Meeting.

Subsequently, on October 24th 2011 KRUK S.A. received a notification from ING Otwarty Fundusz Emerytalny of its holding more than 5% of the total vote at the General Meeting. In accordance with the notification, ING Otwarty Fundusz Emerytalny held 863,333 shares in the Company as at October 24th 2011, which represents 5.11% of its share capital. The shares confer the right to 863,333 votes (5.11% of the total vote) at the General Meeting of KRUK S.A.

The above ownership structure remained unchanged as at December 31st 2011.

6.2.3 TREASURY SHARES

On October 20th 2011, the Extraordinary General Meeting of KRUK S.A. authorised the Company's Management Board to purchase the Company's own shares listed on the main market of the WSE, in the period from October 25th 2011 to April 30th 2015, provided that the total par value of the shares so reacquired may not exceed PLN 1m and the maximum value of the funds to be spent by the Company on the buy-back may not exceed PLN 40m, including the price of the shares and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 100 or lower than PLN 1. Own shares may be bought back in block transactions. Shares reacquired by the Company as part of the buy-back programme may be used:

- To implement the Management Stock Option Plan, operated by the Company under resolution of the Extraordinary General Meeting of KRUK S.A. of March 30th 2011;
- To retire the Company's own shares and reduce its share capital;
- For further resale.

Decisions as to the purpose of acquisition of own shares and the manner of their use are made by the Company's Management Board by way of a resolution. The Management Board may also, depending on the Company's interests, finish the buy-back of the shares before April 30th 2015 or before all the funds intended to be spent on the buy-back programme are used, or may altogether abandon the buy-back of the shares in whole or in part.

In 2011, the Company did not reacquire any of its shares.

6.2.4 HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL POWERS

KRUK S.A. has not issued any securities conferring special control powers on its shareholders.

6.2.5 LIMITATIONS ON THE EXERCISE OF VOTING RIGHTS

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

6.2.6 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 S.A. securities.

6.2.7 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.

6.3 THE PARENT'S GOVERNING BODIES

6.3.1 MANAGEMENT BOARD

6.3.1.1 COMPOSITION OF THE MANAGEMENT BOARD, CHANGES THERETO AND RULES OF APPOINTMENT

The Company's management body is the Management Board. The Management Board of the Parent is composed of six members.

The composition of the Management Board in the period January 1st – December 31st 2011 was as in the table No. 20.

TABLE 20

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

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

The Supervisory Board appoints and removes President of the Management Board. The process is similar for other members of the Management Board, but the appointment is made at the request of 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 he or she held the office.

The current Management Board comprises six members who were appointed in June 2009, with the exception of the member of the Management Board for Marketing, Public Relations and Human Resources, who was appointed in October 2009, and the member of the Management Board for Business Development and Financing, who assumed the office in May 2010.

6.3.1.2 POWERS OF THE MANAGEMENT BOARD

The Management Board, led by the President, manages the Company's business and assets, and represents the Company before courts, government authorities and third parties. Pursuant to Par. 8.1 of the Articles of Association, the Management Board makes decisions in all matters which are not in the exclusive competence of the Supervisory Board or the General Meeting under the Articles of Association or other applicable laws. In turn, the President of the Management Board has exclusive competence to take decisions on the establishment and liquidation of all the Company's organisational units.

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 member of the Management Board acting jointly with a commercial proxy; or (iii) an agent with the power to perform certain types of activities, acting on his/her own, under a power of proxy granted to him/her by the Company.

6.3.1.3 SHARES IN THE COMPANY OR IN THE COMPANY'S SUBSIDIARIES HELD BY MEMBERS OF THE MANAGEMENT BOARD

Members of the management staff of KRUK S.A. holding Company shares or rights to such shares as at December 31st 2011. As at the date of this report, the number of Company shares held by the management remained unchanged (table No. 21).

TABLE 21

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD AS AT THE DATE OF THE REPORT
Piotr Krupa	President of the Management Board	2 655 790
Rafał Janiak	Member of the Management Board	144 710
Urszula Okarma	Member of the Management Board	110 350
Agnieszka Kułton	Member of the Management Board	117 220
Iwona Słomska	Member of the Management Board	49 600
Michał Zasępa	Member of the Management Board	8 000

6.3.1.4 REMUNERATION, BONUSES AND EMPLOYMENT CONTRACT TERMS OF THE MANAGEMENT BOARD MEMBERS

Pursuant to Par. 7.8 of the Parent'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 that 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.

The Company has executed managerial or employment contracts with the following members of the Management Board (table No. 22).

TABLE 22

NAME AND SURNAME	EFFECTIVE DATE OF THE CONTRACT	POSITION
Piotr Krupa	January 29th 2004	President of the Management Board
Rafał Janiak	August 16th 2006	Member of the Management Board
Agnieszka Kułton	May 30th 2006	Member of the Management Board
Urszula Okarma	May 30th 2006	Member of the Management Board
Iwona Słomska (contract of employment)	November 1st 2009	Member of the Management Board
Michał Zasępa	May 28th 2010	Member of the Management Board

The Management Board members, except for the Member of the Management Board in charge of Marketing, Public Relations and Human Resources, have entered into managerial contracts with the Company for the period of their service on the Management Board. The Member of the Management Board in charge of Marketing, Public Relations and Human Resources is engaged by the Company under an employment contract.

Under the executed managerial contracts, the members of the Management Board are entitled to monthly remuneration in the amounts specified in the contracts. Irrespective of the base salary, they may receive annual bonuses linked to the Company's performance in a given financial year, as well as discretionary bonuses. The decision on the payment and amounts of discretionary bonuses rests with the Supervisory Board.

The President of the Management Board receives a bonus for the performance of the financial plan for a given financial year.

The other members of the Management Board receive bonuses for: (i) the achievement of individual targets set for each financial year on the basis of the Company's financial plan for that year, in the amount specified in the relevant contract, and (ii) the performance of the Company's financial plan for a given financial year, in the amount specified in the relevant contract taking into account the percentage reflecting the performance of the financial plan.

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 three months' notice. In the case of the President of the Management Board, the notice period is nine months. A managerial contract may also be terminated by its parties without notice in circumstances indicated in the contract.

The contracts concluded with the Management Board members contain provisions prohibiting the members, without the Company's written consent, from taking additional paid jobs while the contract is in force, as well as non-compete clauses effective during the contract term and for 24 months following its termination. The contracts concluded with the Member of the Management Board for Finance, Member of the Management Board for Strategic Transactions and Client Relations, Member of the Management Board for Credit Management and Member of the Management Board for Marketing, Public Relations and Human Resources provide for compensation on account of the above prohibitions. The compensation is payable in monthly instalments for the period and at the amounts specified below:

- Under the contract concluded with the Member of the Management Board, Finance – for 24 months after the contract termination, in an

TABLE 23. Amounts of remuneration and additional benefits received by the Management Board members

NAME AND SURNAME	REMUNERATION FROM THE COMPANY FOR 2011	ADDITIONAL BENEFITS* FROM THE COMPANY FOR 2011	REMUNERATION FROM THE SUBSIDIARIES FOR 2011	ADDITIONAL BENEFITS* FROM THE SUBSIDIARIES FOR 2011
	(PLN '000)			
Piotr Krupa	714.0	1.8	-	-
Rafał Janiak	396.0	1.6	-	-
Agnieszka Kułton	366.0	2.6	11.3	-
Urszula Okarma	366.0	1.4	-	-
Iwona Słomska	264.0	1.5	-	-
Michał Zasępa	372.0	257.4	-	-

* Additional benefits include bonuses, medical services, and personal accident insurance.
Source: the Company

amount equal to 25% of the Member's remuneration;

- Under the contract concluded with the Member of the Management Board, Strategic Transactions and Client Relations – for 24 months after the contract termination, in an amount equal to 40% of the Member's remuneration;
- Under the contract concluded with the Member of the Management Board, Credit Management – for 24 months after the contract termination, in an amount equal to 40% of the Member's remuneration;
- Under the contract concluded with the Member of the Management Board, Marketing, Public Relations and Human Resources – for 12 months after the contract termination, in an amount equal to 25% of the Member's remuneration.

The contracts concluded with the other Management Board members do not provide for compensation on account of the non-compete obligations.

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

With the exceptions indicated above, as at the publication date of this report, there were no other contracts executed by the Management Board members with the Company or its Subsidiaries providing for post-termination benefits.

The table No. 23 shows the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2011) from the Company and its Subsidiaries for 2011.

The total value of remuneration and additional benefits for 2011 received from the Company and the Subsidiaries by the Management Board members named above amounted to PLN 2,744.3 thousand and PLN 11.3 thousand, respectively.

The additional benefits received from the Company for 2011, including bonuses and awards for the Management Board members for 2011, included only a portion of the bonus for 2011 in the amount of PLN 266.3 thousand. The remaining portion of the bonus for 2011 will be paid in 2012 in an amount reflecting the performance of the Company's financial plan or – in the case of the discretionary bonus – in an amount depending on the Supervisory Board's decision. The Company recognised a PLN 2,951 thousand provision for this purpose.

Moreover, in accordance with the terms of the Company's Incentive Scheme for 2011–2014, described in detail in section "Incentive Scheme" of this report, Resolution No. 45/2011 of the Supervisory Board designates the Management Board members other than the President as persons eligible to acquire/subscribe for subscription warrants issued under the Management Stock Option Plan. Each member of the Management Board is entitled to acquire/subscribe for a total of 38,026 subscription warrants.

6.3.2 SUPERVISORY BOARD

6.3.2.1 COMPOSITION OF THE SUPERVISORY BOARD, CHANGES THERETO AND RULES OF APPOINTMENT

The Supervisory Board is composed of five to 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 this report, the Supervisory Board of the Company is composed of five members.

The Supervisory Board is appointed and removed by the General Meeting, subject to the provisions below.

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 40% or more of the total vote at the General Meeting, it should have the right to appoint and remove from office:
- 3 (three) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 4 (four) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 20% or more, but less than 40% of the total vote at the General Meeting, it should have the right to appoint and remove from office:
- 2 (two) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 3 (three) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Mr Piotr Krupa holds shares in the Company conferring the right to 8% or more of the total vote at the General Meeting, he should have the right to appoint and remove from office:
- 1 (one) member of a five-member Supervisory Board, including the Deputy Chairman of the Supervisory Board;
- 2 (two) members of a seven-member Supervisory Board, including the Deputy Chairman of the Supervisory Board.

The right to appoint and remove from office members of the Supervisory Board as specified above, conferred upon Polish Enterprise Fund IV, L.P. and Mr Piotr Krupa, are exercised by delivery to the Company of a written statement on appointment or removal of a Supervisory Board member.

The composition of the Supervisory Board in the period January 1 - October 19th 2011 was as in the table No. 24.

TABLE 24

Dariusz Prończuk	Chairman of the Supervisory Board
Paweł Sikorski	Member of the Supervisory Board
Piotr Stępniak	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Wojciech Małek	Member of the Supervisory Board

In connection with Mr Paweł Sikorski's resignation from the position of member of the Supervisory Board, submitted on September 23rd 2011 and effective as of October 19th 2011, on October 20th 2011 the Extraordinary General Meeting appointed Mr Józef Wancer to the Company's

Management Board. Following the appointment, as of October 20th 2011, the composition of the Supervisory Board was as in the table No. 25

TABLE 25

Dariusz Pończuk	Chairman of the Supervisory Board
Józef Wancer	Member of the Supervisory Board
Piotr Stępniak	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Wojciech Małek	Member of the Supervisory Board

The composition of the Supervisory Board of KRUK S.A. remained unchanged as at the date of this report.

6.3.2.2 POWERS OF THE SUPERVISORY BOARD

The Supervisory Board exercises supervision over the Company's operations in each area of its activity. In addition to the responsibilities set forth in the Polish Commercial Companies Code, the Supervisory Board's powers shall include in particular:

- Reviewing 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 the distribution of profit or coverage of loss;
- Submitting to the General Meeting an annual written report on the results of the review referred to in item 1 above;
- Appointing and removing from office the President of the Management Board;
- Appointing and removing from office members of the Management Board (including Vice-Presidents);
- Suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- Determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- Determining the amount of remuneration of the President of the Management Board;
- Approving the Company's annual financial plans (the budget) and strategic economic plans;
- Granting consent to contracting loans by the Company, other than loans provided for in the annual budget, in excess of a cumulative annual amount of PLN 5m, with the exception of loans contracted from related parties;
- Issuing sureties and encumbering the Company's assets, assuming commitments under guarantees and other off-balance-sheet commitments and liabilities, in excess of a cumulative annual amount of PLN 5m, except where the sureties, encumbrances, commitments or liabilities are provided for in the budget or the transactions are executed solely with a related party of the Company;
- Granting consent to contracting liabilities by the Company as part of a single transaction or a series of related transactions with a total value in excess of PLN 2m in a financial year, other than liabilities provided for in the budget approved in accordance with these Articles of Association or arising in the Company's ordinary course of operations;
- Granting consent to assignment by way of security, or creation of a pledge, mortgage or other encumbrances over the Company's assets other than provided for in the budget approved in accordance with these Articles of Association, in excess of a cumulative annual amount of PLN 2m;
- Granting consent to acquiring of or subscribing for shares in other commercial companies or joining other businesses by the Company;
- Granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen per cent) of the Company's net book value as determined on the basis of the last audited financial statements;

- Granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks;
- Granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other than provided for in the budget would exceed PLN 500,000.00 (five hundred thousand złoty);
- Approving the rules of management stock option plans;
- Selecting an auditor to audit the Company's annual financial statements, referred to in Art. 395 of the Polish 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 its subsidiary and Management or Supervisory Board members;
- Granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1,000,000.00 (one million złoty) in a financial year;
- Granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary outside the scope of the Company's business in an amount exceeding PLN 200,000.00 (two hundred thousand złoty) in a financial year;
- Granting consent to the issue of bonds by the Company;
- Granting consent to the purchase or disposal of real estate, perpetual usufruct rights or interests in real estate by the Company.
- Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board. The Rules of Procedure of the Supervisory Board define the detailed rules for its meetings.
- 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 Chairman of the Supervisory Board has the casting vote. A resolution of the Supervisory Board is valid when all Supervisory Board members have been invited to the meeting and at least half of them attend the meeting.

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

6.3.2.3 SHARES IN THE COMPANY OR IN THE COMPANY'S SUBSIDIARIES HELD BY MEMBERS OF THE SUPERVISORY BOARD

As at December 31st 2011 and as at the date of this report, members of the Supervisory Board do not hold any shares in the Company or its subsidiaries.

6.3.2.4 REMUNERATION, BONUSES AND EMPLOYMENT CONTRACT TERMS OF THE SUPERVISORY BOARD MEMBERS

Pursuant to Par. 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 amounts of remuneration payable to the members of the Supervisory Board are determined by virtue of a resolution of the General Meeting.

The table No. 26 shows the amounts of remuneration received by the Supervisory Board members (who were in office in 2011) from the Company and its Subsidiaries for 2011.

TABELA 26

NAME AND SURNAME	REMUNERATION FROM THE COMPANY FOR 2011
Piotr Stępniak	74.0
Dariusz Prończuk	-
Krzysztof Kawalec	45.9
Paweł Sikorski	-
Wojciech Małek	-
Józef Wancer	42.6*

*Remuneration payable in the euro. The amount is the złoty equivalent of EUR 9.5 thousand translated using the exchange rate quoted by the National Bank of Poland for the day preceding the payment day.

The total value of remuneration for 2011 received from the Company by the Supervisory Board members named above amounted to PLN 162.5 thousand. The amount includes the remuneration payable in the euro, translated into the złoty using the exchange rate quoted by the National Bank of Poland for the day preceding the payment day.

In 2011, neither the Company nor its Subsidiaries paid any additional benefits to the members of the Supervisory Board.

As at the date of this report, there were no contingent or deferred benefits payable to the 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.

6.3.2.5 SUPERVISORY BOARD COMMITTEES

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

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

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

Pursuant to the Rules of Procedure of the Supervisory Board, the **Audit Committee** is composed of at least three members, including at least one independent member having the required expertise and experience in the area of accountancy and finance, i.e. meeting the criteria defined in Art. 86.4 and 5 of the Act on qualified auditors and their self-government, entities qualified to audit financial statements and public supervision of May 7th 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

The Audit Committee's responsibilities include in particular:

- Monitoring financial reporting processes;
- Monitoring the effectiveness of the internal control, internal audit and risk management systems;
- Monitoring the financial audit function;
- Monitoring the independence of the chartered auditor and the entity qualified to audit the financial statements;
- Reviewing the Company's financial statements and presenting opinions on the financial statements to the Supervisory Board;
- Reviewing related-party transactions;
- Recommending an auditing entity to the Supervisory Board and providing the justification for the recommendation.

The composition of the Audit Committee, as appointed by virtue of a Supervisory Board resolution of May 4th 2011, was as in table No. 27.

TABLE 27

Wojciech Małek	Chairman of the Audit Committee
Piotr Stępniak	Member of the Audit Committee
Krzysztof Kawalec	Member of the Audit Committee

In the 2011 financial year, the Audit Committee:

- Discussed the financial reporting process in place at the Company,
- Assessed the auditor's work and discussed the financial reporting activities undertaken by the auditor,

- Assessed the Company's compliance with corporate governance standards set out in the "Best Practices of WSE Listed Companies".

The Audit Committee also reviewed related-party transactions.

The Remuneration and Appointment Committee is composed of at least three members, including at least one member with expertise and experience in the area of remuneration policy; independent Supervisory Board members should form the majority of the Remuneration and Appointment Committee.

The Remuneration and Appointment Committee's responsibilities include in particular:
- Planning the policy of remuneration of the Management Board members;
- Aligning the remuneration of the Management Board Members with the Company's long-term interests and its financial performance;
- Recommending candidates for the Management Board to the Supervisory Board;
- Providing periodical assessment of the structure, number of members and performance of the Management Board and recommending changes in this respect to the Supervisory Board, providing periodical appraisal of the skills, expertise and experience of the individual Management Board Members to the Supervisory Board.

The composition of the Remuneration and Nominations Committee, appointed by virtue of a Supervisory Board resolution of May 4th 2011, is as in table No. 28.

TABLE 28

Dariusz Prończuk	Chairman of the Remuneration and Appointment Committee
Krzysztof Kawalec	Member of the Remuneration and Appointment Committee
Piotr Stępniak	Member of the Remuneration and Appointment Committee

In 2011, the Remuneration and Nominations Committee:
- Assessed and reviewed the bonus system operated by the Company;
- Reviewed the rules of remuneration of the Management Board Members against the Company's long-term interests and its financial performance;
- Analysed the rules of remuneration of the Company's senior management staff in terms of the advisability of preparation and implementation of a remuneration policy at the Company.

Pursuant to the Rules of Procedure of the Supervisory Board, the **Finance and Budget Committee** is composed of two to four Supervisory Board members. As at the date of this report, the composition of the Finance and Budget Committee, established by virtue of a Supervisory Board resolution of May 4th 2011, is as ina table No. 29.

TABLE 29

Dariusz Prończuk	Chairman of the Finance and Budget Committee
Piotr Stępniak	Member of the Finance and Budget Committee

The Finance and Budget Committee's responsibilities include in particular:
- Drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board concerning matters related to the finances of the Company;
- Supporting oversight of the performance of the Company's budget;
- Performing the on-going analysis of the Company's financial performance and standing;
- Addressing 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 the 2011 financial year, the Finance and Budget Committee analysed the Company's financial performance and standing, carried out an initial evaluation of the performance of the

Company's budget in 2011 and discussed assumptions for the draft budget resolution.

6.3.3 GENERAL MEETING

Rules governing the convening and the functioning of the General Meeting as well as its powers are stipulated in the Commercial Companies Code and in the Company's Articles of Association.

A General Meeting may be held as either annual or extraordinary. An Annual General Meeting is convened by the Company's Management Board to be held no later than six months after the end of each financial year, in particular in order to:

- Review and approve the Directors' Report on the Company's operations and the financial statements for the previous financial year;
- Adopt a resolution concerning distribution of profit or coverage of loss;
- Grant discharge to members of the Company's governing bodies in respect of their performance of duties.

An Extraordinary General Meeting may be convened by the Management Board (acting on its own initiative or at the request of shareholders representing at least half of the share capital or voting power within the Company), by the Supervisory Board (if it deems it advisable to do so) or by shareholders authorised to do so by the registry court under Art. 430.3 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 particular items be placed on the Meeting's agenda. Any such requests should be made in writing or in the electronic form and submitted to the Management Board. An Extraordinary General Meeting should be convened within two weeks from the date when the Management Board receives a relevant request.

A shareholder or shareholders representing at least one-twentieth of the Company's share capital may request that certain items be placed on the agenda of the next General Meeting. Any such request should be submitted to the Management Board at least 21 days prior to the scheduled date of the General Meeting of Shareholders. The request should include grounds for, or a draft resolution pertaining to, the proposed agenda item. The Management Board is obliged to promptly (and in any case no later than eighteen days prior to the scheduled date of the General Meeting) announce any changes to the agenda introduced at the request of shareholders.

A shareholder or shareholders representing at least one-twentieth of the Company's share capital may, prior to a General Meeting, provide the Company (in writing or by electronic means) with draft resolutions concerning the matters which have been or are to be included in the Meeting's agenda. The Company is required to promptly publish such draft resolutions on its website. During a General Meeting, each shareholder may submit draft resolutions concerning the items on the agenda.

The **General Meeting** is convened by way of a notice published on the Company's website and in the manner required for the publication of current information pursuant to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005. The notice should be published at least 26 days before the scheduled date of the General Meeting.

Each share confers the right to one vote at the General Meeting. A General Meeting is validly held regardless of the number of shares represented, unless the provisions of the Commercial Companies Code provide otherwise.

Resolutions of the General Meeting are passed with an absolute majority of the votes, unless statutory provisions or the Company's Articles of Association provide otherwise.

The powers and responsibilities of the General Meeting include, without limitation:

- Review and approval of the Directors' Report on the Company's operations and the financial statements for the previous financial year;

- Decisions as to distribution of profit or coverage of loss;
- Granting discharge to members of the Management Board and the Supervisory Board in respect of their performance of duties;
- Decisions concerning claims for redress of any damage inflicted in connection with establishment of the Company or in connection with managing or supervising the Company;
- Disposal or lease of the Company's business or its organised part and establishment of limited property rights thereon;
- Amendments to the Company's Articles of Association;
- An increase or reduction of the share capital;
- Merger, transformation or demerger of the Company;
- Dissolution of the Company and opening of its liquidation;
- Passing resolutions approving the Rules of Procedure of the General Meeting and the Rules of Procedure of the Supervisory Board;
- Consideration and resolution of proposals put forward by the Supervisory Board;
- Other matters reserved for the General Meeting under the provisions of the Articles of Association or the applicable laws.

Resolutions by the General Meeting concerning any material change to the Company's business profile do not require redemption of the opposing shareholders' shares, provided that they are adopted with a majority of two thirds of the total vote in the presence of persons representing no less than a half of the share capital.

6.4 RULES GOVERNING AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

The rules governing the introduction of amendments to the Company's Articles of Association are stipulated in the Commercial Companies Code. Pursuant to Art. 430 of the Code, any amendment to the Company's Articles of Association requires a relevant resolution by the General Meeting and must be entered in the relevant court register. In accordance with Art. 415 of the Commercial Companies Code, a resolution by the General Meeting concerning any amendments to the Company's Articles of Association requires a majority of three-fourths of the total vote.

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.

6.5 KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Group has in place an adequate and effective internal audit system in the form of an internal organisational unit, which ensures safe operation, 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, the Group, on an annual basis, submits the financial statements, including subsidiaries' financial statements, to be audited by a charter auditor, takes stock of assets, and monitors on an on-going basis the performance of individual business areas against the targets and objectives assumed in financial plans.

7.1 COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

General information

As part of the ordinary course of business, the Company and Subsidiaries are parties to court and enforcement proceedings concerning their operations. As at December 31st 2011, the Company and Subsidiaries were plaintiffs or participants in 189,968 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 1,095,000,000.00. Moreover, as at December 31st 2011 there were pending 143,435 enforcement proceedings instituted by the Company or Subsidiary Undertakings, where the value of claims being enforced totalled approximately PLN 854,000,000.00. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and Subsidiary Undertakings.

As at December 31st 2011 the Company and Subsidiaries were defendants in 14 court proceedings, where the total value of litigation was approximately PLN 470,000.00. The Company and Subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or Subsidiaries where the value of claims would exceed 10% of the Company's equity.

No liquidation, bankruptcy or recovery proceedings were conducted with respect to the Company or Subsidiaries.

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

There was one proceeding, initiated upon a motion filed by a subsidiary, where the value of litigation exceeded 10% of the Company's equity: bankruptcy proceedings concerning Pascal Construction Sp. z o.o. w upadłości (in bankruptcy). The value of claim was PLN 18,209,415.90, the proceedings were instigated on January 25th 2006, and the parties to the proceedings were PROKURA NSFIZ and Pascal Construction Sp. z o.o. w upadłości (in bankruptcy). The Company expects to recover a small fraction of the claim.

Proceedings with the largest value of claims, not exceeding 10% of the Company's equity and concerning the Company's liabilities:

Among the proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 200,000.00, were the proceedings against KRUK S.A. instigated by a natural person on September 27th 2010. The Company deems the action for payment of compensation for infringement of personal rights as groundless and expects it to be dismissed in whole.

Proceedings with the largest value of claims, not exceeding 10% of the Company's equity and concerning debts owed to the Company:

Among the court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 6,255,937.08, were the proceeding concerning the claims of PROKURA NSFIZ, pending against the SPÓŁDZIELNIA MIESZKANIOWA WSPÓŁPRACA housing cooperative. The subsidiary's claim has been satisfied in part and the Company expects no further payments to be awarded by the court.

7.2 AUDITORS

On July 14th 2011, the Company and KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement on audit of separate and consolidated financial statements for 2011 and review of separate and consolidated financial statements for H1 2011. The fee for audit of the annual separate financial statements, audit of the annual financial statements of subsidiaries, review of the annual financial statements of subsidiaries, and audit of the annual consolidated financial statements was set at PLN 210 thousand

(2010: PLN 218 thousand); for other certification services, including review of semi-annual consolidated financial statements – at PLN 155 thousand (2010: PLN 382 thousand). The separate and consolidated financial statements for 2010 were audited by KPMG Audyt Sp. z o.o.

On July 10th 2011, the Parent executed and agreement with KPMG spółka z ograniczoną odpowiedzialnością Sp. komandytowa, for provision of bookkeeping and accounting training services for Securitisation Funds. The consideration was set at PLN 20 thousand.

On May 12th 2011, a subsidiary executed an agreement with KPMG spółka z ograniczoną odpowiedzialnością Sp. komandytowa, for provision of certification services consisting in a review of the methods and rules used in valuation of fund assets. The consideration was set at PLN 8.0 thousand.

7.3 MAJOR RESEARCH AND DEVELOPMENT ACHIEVEMENTS

Research and development work is focused on improving Delfin, the proprietary IT system designed to facilitate the debt management process. The system includes a number of functionalities which are fully customised to support the KRUK Group, the Group's internal procedures and its clients. The system has been was developed and upgraded under supervision of a team of IT professionals employed by the Company. The fact that the system does not involve dependence on any third-party software vendor and the system's open architecture render the platform flexible and scalable; each improvement of the debt collection process is followed with a relevant modification to the Delfin platform. In 2011, the Company spent PLN 2.2m on its IT systems.

CHART 6. Company's share prices on the WSE in 2011

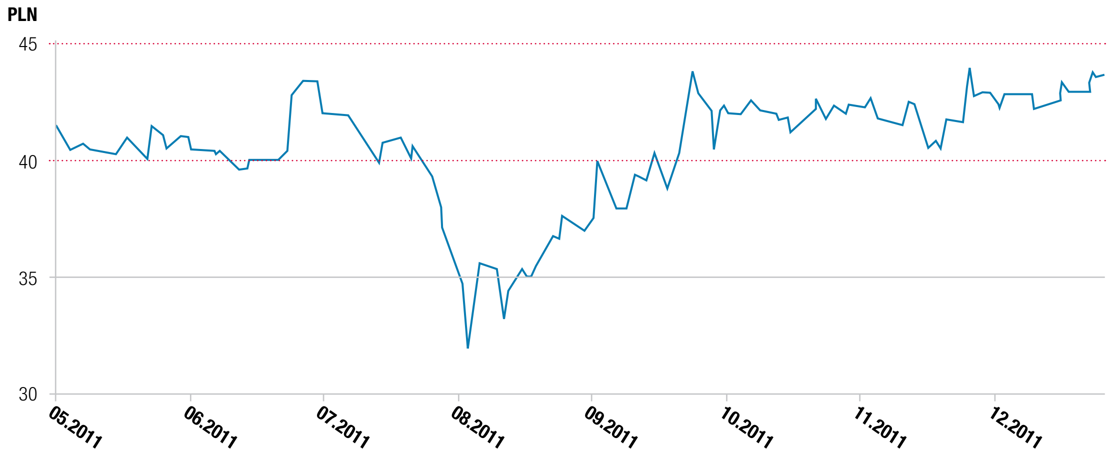


TABLE 30. KRUK share price statistics

	ISSUE PRICE	DEC 31 2012	AVERAGE PRICE	LOW	HIGH
KRUK	39.7	43.72	40.56	32.00	44.00

CHART 7. Rate of return on KRUK SA shares in 2011

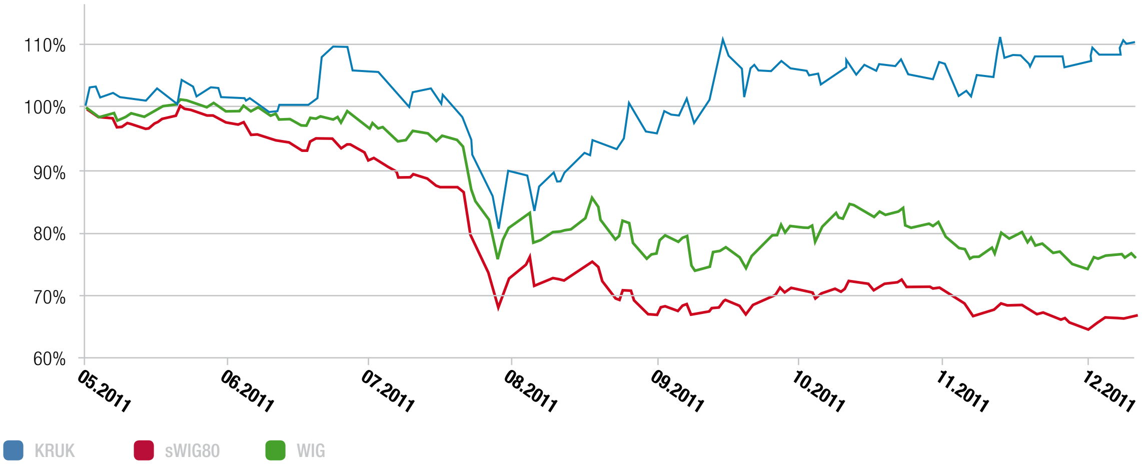


TABLE 31. Rate of return on KRUK SA shares in 2011

	KRUK	SWIG80	WIG
11-05-10	39.70 (issue price)	12 717.72	49 332.75
11-12-30	43.72	8 496.54	37 595.44
Rate of return	10.13%	-33.19%	-23.79%

7.4 ENVIRONMENTAL MATTERS

Given the type of its operations, there are no environment-related issues which would be material to the Group's activities.

7.5 COMPANY SHARES ON THE WARSAW STOCK EXCHANGE

The Company shares were first traded on the Warsaw Stock Exchange on May 10th 2011. The price of the Company shares in the public offering was PLN 39.7. On the first day of trading, KRUK shares opened at PLN 39.77 and closed at PLN 41.71, or 0.18% and 5.06% higher, respectively, relative to the issue price. The trading volume on the first listing day was 927.6 thousand shares.

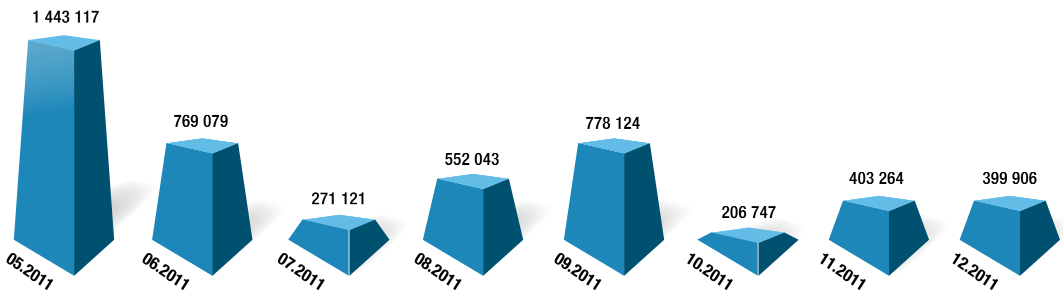
In 2011, the price of KRUK shares remained in a flat trend (PLN 40-44), except in August and September, when the financial markets suffered a strong retreat and the KRUK shares fell to PLN 32 (chart No. 6).

The table No. 30 presents the key statistics on the performance of KRUK stock in 2011 (at closing prices).

In 2011, the rate of return on KRUK shares (over the issue price) was 10.13%. Over the same period, the WSE stock indices yielded negative returns. The small cap index sWIG80, in which KRUK shares were included pursuant to a resolution of the WSE Management Board of August 8th 2011, lost 33.19%, and the all-cap index fall 23.79% (chart No. 7).

In 2011, the total trading volume of KRUK shares was 4.8m (28.5% of the Company's share capital), representing a total value of PLN 194.5m. The

CHART 8. Monthly trade volume in 2011



average number of KRUK shares traded daily was 29,411.

The chart No. 8 presents the monthly trading volumes for the KRUK stock in 2011.

7.6 CSR POLICY

As KRUK is not a production company, the overview presented below does not address any matters traditionally associated with corporate social responsibility, such as environmental protection. However, the Company can boast certain socially relevant initiatives, both on a small scale (employees) and in a wider arena (regional or - as in the case of initiatives supporting financial education - nationwide projects).

Educational initiatives concerning sensible management of household budgets, assuming obligations in a responsible way, and solving debt issues.

The main message behind the project is to show that anyone can fall into debt, and such problems frequently strike out of the blue. The project is also aimed at educating the Polish people on the principles of household budget management and giving them an overall understanding of the financial market. Educational projects are undertaken by the Group on its own or jointly with partners (consumer education associations and organisations).

Articles, guidelines and advice

The Group regularly authors and distributes to the nationwide, local and thematic media general-knowledge articles concerning indebtedness and describing potential consequences of default and ways of dealing with indebtedness.

As part of such information activities, guidelines containing tips and advice for the indebted are prepared. So far, the guidelines have been published in such dailies as “Fakt” and “Super Express” as well as in consumer magazines. The leaflets explained such matters as ways of dealing with indebtedness, steps to be taken after receiving a letter from a debt collector, the best ways to reach an agreement with the creditor, and consequences of failure to repay debt.

“Our Debts” and “Day without Debts” events

The “Day without Debts” project is to remind the Polish people that solving problems with debt repayment should not be postponed. As part of “Our Debts” campaign, at www.naszedlugi.pl we launched a dedicated website containing tips and advice for persons facing problems with debt repayment. The site contains advice for debtors, provides tips on how to borrow responsibly, and shows results of research concerning debt issues. Users of the website can also talk to each other on the forum or ask a question to an expert. The website also provides a household budget calculator, which helps to count monthly spending and estimate whether we can afford to borrow more.

Active support for voluntary blood donation

The Group organises regular blood donation events among its employees in cooperation with the Regional Centre for Blood Donation and Chemotherapy and supports public blood donation events coordinated by the Centre, such as "Wrocławska akcja KREW" (Wrocław's BLOOD campaign).

Organisation of free first aid courses for employees

KRUK regularly provides its staff with first aid training. In cooperation with the Medical Rescue Centre, a number of training courses and demonstrations of emergency medical rescue activities using modern rescue equipment were conducted. Thus the KRUK Group employees had an opportunity to learn various methods of administering first aid in accordance with the latest guidelines of the European Resuscitation Council. As part of two professional training rounds, tens of participants underwent a two-day training course, followed by an examination, and received a certificate confirming completion of the course.

Purchase and installation of life-saving defibrillators at the Company's offices

At our offices in Wrocław and Szczawno Zdrój we have placed three defibrillators, which can save life before the ambulance arrives. Our employees received training on the use of the equipment. KRUK was among the first companies in Poland to join the project designed to place AEDs in areas with high human traffic, such as office buildings or retail centres.

7.7 AWARDS AND DISTINCTIONS

The KRUK Group is an unquestionable leader of the credit management market, aspiring to excellence in customer service. The Company's initiatives are also highly appreciated by independent competition boards, as evidenced by numerous awards and distinctions. In 2011, KRUK S.A. won the following distinctions:

Złoty Laur Klienta 2011 (Golden Laurel 2011)

The award attests to the popularity of the brand and the positive opinion it enjoys among customers. "Laur Klienta" is the largest consumer award programme in Poland, organised by Rzecz o Biznesie, a nationwide business supplement of the Rzeczpospolita daily. A nationwide survey carried out as part of the programme shows which products and services are current popularity leaders in their categories. This means that the distinctions granted by the organisers are in fact granted by Polish consumers.

Biała Lista 2011 (White List 2011)

Programme of the Commercial Chamber of Wrocław, aimed at promoting reliable entrepreneurs The list includes companies which make timely payments to their business partners and are not overdue with payments to the public budget.

7.8 GLOSSARY OF TERMS

Articles of Association – The Company's Articles of Association

Auditor – KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., ul. Chłodna 51, 00-867 Warsaw, the Company's auditor

B2B – Business-to-Business relations

B2C – Business-to-Consumer relations

Consolidated Financial Statements – The Group's consolidated financial statements for the reporting period ended December 31st 2011, prepared in accordance with the IFRS

ERIF – Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw

ERIF Bussines Solutions – ERIF Bussines Solutions Sp. z o.o. of Wrocław

EURO, EUR – The lawful currency of the Eurozone countries

Eurozone – The group of countries which have adopted the Euro, including Austria, Belgium, Cyprus, Finland, France, Greece, Spain, Netherlands, Ireland, Luxembourg, Malta, Germany, Portugal, Slovakia, Slovenia, Italy

FMCG – Fast Moving Consumer Goods

GDP – Gross Domestic Product

General Meeting – The Company's General Meeting

GUS – Polish Central Statistics Office

IAS – International Accounting Standards as endorsed by the European Union

IBnGR – The Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową)

IFRS – International Financial Reporting Standards as endorsed by the European Union

Incentive Scheme – An incentive scheme for 2011-2014 implemented by the Company, addressed to the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of 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.

Kancelaria Prawna RAVEN – Kancelaria Prawna RAVEN Krupa&Stańko sp. k. of Wrocław

KRS – National Court Register

KRUK International of Romania – KRUK International S.R.L. of Romania

KRUK International of the Czech Republic – KRUK International S.r.o. of the Czech Republic

Management Board – The Company's Management Board

Monetary Policy Council (RPP) – The Monetary Policy Council, a body of the National Bank of Poland

NBP – National Bank of Poland

Non-Standard Securitisation Closed-End Investment Funds – Prokura NS FIZ, Prokulus NS FIZ and Sekura NS FIZ, as applicable

PFSA – Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)

PLN – The Polish Złoty, the lawful currency in Poland

Polish NDS – Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)

Polski Rynek Długów; PRD Sp. z o.o. – Polski Rynek Długów sp. z o.o. of Wrocław

Prokulus NS FIZ – Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty

Prokura NS FIZ – Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty

Regulation on current and periodic information – The 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 (Journal of Laws of 2009, No. 209, item 1744, as amended)

Regulation on the Market and Issuers – The Minister of Finance's Regulation on detailed conditions to be met by an official stock exchange market and issuers of securities admitted to trading on that market, dated October 14th 2005 (Journal of Laws of 2005, No. 206, item 1712)

RON – The Romanian Leu; the lawful currency in Romania

Secapital Luksemburg – Secapital S.à.r.l. (Luxembourg)

Secapital Polska – Secapital Polska Sp. z o.o. of Warsaw

Subsidiaries – The Company's subsidiary undertakings, as defined in the Accountancy Act, and Kancelaria Prawna RAVEN

Supervisory Board – The Company's Supervisory Board

The Company; KRUK – KRUK S.A. of Wrocław

The Group, the KRUK Group – The Company as the parent along with its Subsidiaries and Non-Standard Securitisation Closed-End Investment Funds

UOKiK – Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)

UOKiK President – President of the Office of Competition and Consumer Protection

WSE – Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)

SIGNATURES OF MANAGEMENT BOARD MEMBERS

The KRUK Group Directors' Report 2011 is submitted by the Company's Management Board composed of:

Piotr Krupa President of the Board	....
Rafał Janiak Member of the Board	....
Urszula Okarma Member of the Board	....
Agnieszka Kułton Member of the Board	....
Iwona Słomska Member of the Board	....
Michał Zasępa Member of the Board	....

Wrocław, March 13 2012

KRUK Group

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