



Directors' Report on the operations
of **the KRUK Group** in **2015**

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CEO's letter

Dear Shareholders and Investors,

2015 was marked with a number of milestone events for the KRUK Group. **We delivered record-high profits, paid out our first dividend in history, established companies in Spain and Italy, purchased our first portfolios in Germany and Italy, entered the debt trading market in Poland through a transaction with the P.R.E.S.C.O. Group, currently in progress, and were included in the prestigious MSCI Poland Small Cap stock market index.** I am therefore all the more happy to be able to present to you this report on the key developments and achievements of the KRUK Group in 2015, as well as on the progress in the implementation of our strategy for 2015–2019.

In 2015, we set a new record in terms of financial performance. At PLN 204m, our net profit was 35% higher than the year before, while cash recoveries, another important measure of our efficiency, grew 16% – to PLN 826m. Most of the repayments resulted from our strategy of out-of-court settlement, which has been in use since 2008. In 2015, the strategy was supported by marketing campaigns launched in Poland, Romania and, for the first time, in the Czech Republic and Slovakia. We employ people in seven European countries, but the KRUK Group's core values and organisational culture remain the same wherever we conduct our business.

Establishing new companies in Italy (KRUK Italia S.r.l and ItaCapital S.r.l) and in Spain (KRUK España S.L.) was yet another important event in 2015. For the Group, it signals an official start of operations on two new markets following many months of analyses. However, we continue pursuing our strategy for 2015–2019 and plan expansion into other large consumer markets in Europe.

Our expenditure on debt portfolios in 2015 was PLN 489m, which does not include the price to be paid under the transaction with the P.R.E.S.C.O. Group. We are very happy that our investments spanned a total of six countries, including Germany and Italy. We also take part in portfolio valuations in Spain. Thanks to good investments, the nominal value of the debt portfolios purchased since the beginning of our operations has increased to PLN 26.6bn, and their carrying amount – to PLN 1.6bn. These are excellent foundations for further rapid growth.

The signing of our agreement with the P.R.E.S.C.O. Group to purchase its entire debt portfolio in Poland, comprising 2 million cases with a total nominal value of PLN 2.7bn, was yet another important development for the entire debt management market, as it was the first transaction of this type in Poland. We have demonstrated that we wish to become an active force for the consolidation of the debt management industry and that we are interested in acquiring further portfolios from other companies in the sector.

Our position has been consistently confirmed by publications of financial journalists. **In 2015, the total nominal value of debts accepted for management or purchased by the KRUK Group in Poland reached PLN 5.7bn, giving us once again the top position among debt management companies according to the Gazeta Giełdy Parkiet daily.** We received numerous accolades, the most important of which included the 2014 Listed Company of the Year title in a ranking by the Puls Biznesu daily and the first place in CEE Capital Markets Awards in the Top Performing category. Since December 2015, we have also been part of the prestigious MSCI Poland Small Cap stock index, which features Polish listed companies with the highest liquidity.

Last year saw a further increase in the price of our shares on the Warsaw Stock Exchange. In 2015, the rate of return on KRUK shares was 61%, while the mWIG40 index only gained 2% in the same period. From our IPO in May 2011 to the end of 2015, the Company stock yielded a 338% rate of return.



In 2015, KRUK paid a dividend of PLN 1.5 per share, for the first time since its stock exchange debut. One of the aims of the dividend distribution was to reinforce the commitment and the cost efficiency culture among our employees and shareholders of KRUK S.A. This year we also decided to recommend the distribution of dividend, in the amount of PLN 2 per share.

We maintain momentum and aim to pursue further growth, both in Poland and abroad. **We are guided by our strategy for 2015–2019, which is consistently implemented and based on four pillars: business growth across products and geographical regions in Europe, operational improvements, improved analyses, and reaching out to customers and building long-term relations.**

I wish to thank all those who have contributed to our success in 2015. I believe that we can reach even higher in the future. I invite you to read the detailed report on the KRUK Group's operations and financial performance in 2015.

Yours sincerely,

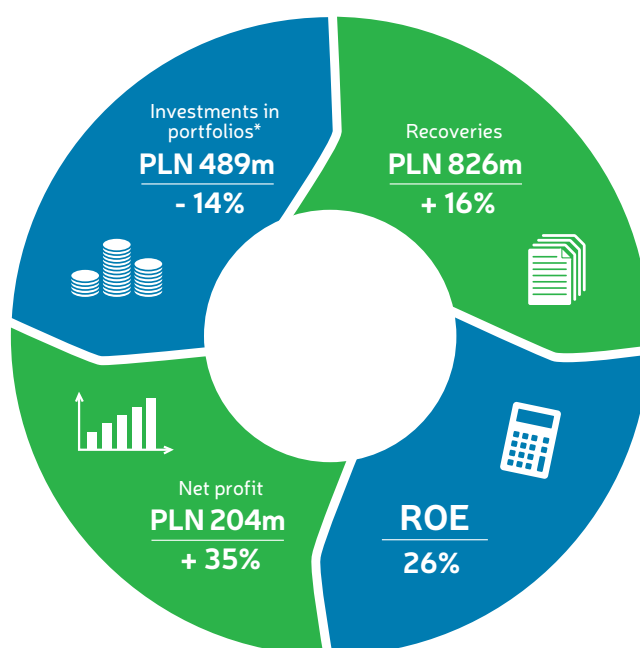
Piotr Krupa

CEO and President of the
Management Board

Overview of 2015

Discussion of 2015 results:

- Expenditure on debt portfolios at **PLN 489m**, compared with PLN 571m in the previous year
- Recoveries up **16%**, to **PLN 826m**
- The carrying amount of the purchased portfolios at the year-end at **PLN 1,598m**, up **17%** year on year
- Projected gross cash flows from debt portfolios at **PLN 2,836m**, up **15%** year on year
- Total revenue up **25%** year on year, to **PLN 611m**
- Cash EBITDA up **7%**, reaching **PLN 524m**
- Net profit at **PLN 204m**, an increase of **35%** year on year
- Earnings per share (diluted) at **PLN 11.48**, up **32%** year on year
- Return on equity (ROE) at **26%**
- Net debt to equity at **1.0** at the year-end
- Dividend of **PLN 2** per share to be recommended by the Management Board to the General Meeting



PLNm	2015	2014	change (%)
Expenditure on debt portfolios	489	571**	-14%
Gross recoveries	826	712	+16%

Carrying amount of purchased portfolios	1,598	1,367	+17%
Projected future gross cash flows (120 months)	2,835	2,455	+15%

Total revenue	611	488	+25%
Revenue from purchased portfolios	564	442	+28%
EBIT	251	208	+21%
EBITDA***	262	220	+19%
Cash EBITDA****	524	489	+7%
Net profit	204	152	+34%
Basic EPS (PLN)	11.8	9.0	+31%
Diluted EPS (PLN)	11.4	8.7	+31%
ROE*****	26%	26%	0 p.p.
Net debt to equity	1.0	1.3	-

* The amount does not include the portfolio purchased from P.R.E.S.C.O.

** After taking into account the purchase price adjustment for discount

*** EBITDA = EBIT + depreciation and amortisation

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

***** ROE = (net profit)/(equity at end of period)

1 | Introduction

This Section presents key information on the KRUK Group, its selected consolidated financial and operating data, as well as an overview of the Group's operations in 2015.

1.1 | General information on the Parent of the KRUK Group

Form of incorporation of the Parent

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

The Company was established in 1998 as KRUK Spółka z ograniczoną odpowiedzialnością. Pursuant to

a resolution of the Extraordinary General Meeting of June 28th 2005, KRUK Sp. z o.o. (limited liability company) was transformed into KRUK S.A. (joint-stock company) and on September 7th 2005 the transformed company was entered in the National Court Register – 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.

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

Table 1. Group's financial performance in 2014–2015

	Period ended Dec 31	
	2015	2014
	(PLN '000, unless stated otherwise)	
Revenue	611,234	487,920
EBITDA	261,919	219,519
Operating profit (EBIT)	251,379	208,161
Net profit for the period	204,261	151,802
Cash flows from operating activities, including	41,095	-61,729
Debt purchases	-489,282	-575,105*
Cash recoveries	825,659	711,841
Cash flows from investing activities	-7,821	-7,776
Cash flows from financing activities	36,923	104,792
Total net cash flows	70,197	35,287
Total assets	1,836,115	1,516,647
Equity	784,278	585,083
Return on equity (ROE)**	26%	26%
Earnings per share (PLN)		
Basic	11.84	8.95
Diluted	11.48	8.72

Source: Consolidated Financial Statements.

* Without taking into account the purchase price adjustment for discount

** Return on equity (ROE) = net profit for the period / total equity

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For the organisational chart of the KRUK Group, see
Section 2.2.1 – Description of the Group's structure.

1.2 Consolidated financial and operating highlights

1.2.1 Consolidated financial highlights

In 2015, the Group's financial performance continued on an upward trend. The Group posted PLN 611m in revenue (up 25% year on year), PLN 251m in operating profit (up 21% year on year), and PLN 204m in net profit (up 35% year on year).

Table 2. Movements in purchased debt portfolios in 2015

PLN '000	
Purchased debt portfolios as at Jan 1 2014	1,053,913
Purchase of debt portfolios	575,105
Purchase price adjustment for discount	(4,419)
Cash recoveries	(711,841)
Increase/(decrease) in liabilities to debtors due to overpayments	574
Valuation of loyalty scheme	2,080
Revenue from debt purchase (interest and revaluation)	442 374
Fair value translation differences	8,751
Purchased debt portfolios as at Dec 31 2014	1,366,537
Purchased debt portfolios as at Jan 1 2015	1,366,537
Purchase of debt portfolios	489,282
Cash recoveries	(825,659)
Increase/(decrease) in liabilities to debtors due to overpayments	458
Valuation of loyalty scheme	4,318
Revenue from debt purchase (interest and revaluation)	563 646
Fair value translation differences	(450)
Purchased debt portfolios as at Dec 31 2015	1,598,132

Source: Consolidated Financial Statements.

Table 3. Summary of operating results as at the end of 2014 and 2015

	Dec 31 2015	Dec 31 2014
Number of managed cases (millions)	3.3	2.8
Nominal value of managed cases (PLNbn)	31.4	26.3

Source: the Company.

Table 4. Summary of debt portfolios purchased in 2014–2015

	2015	2014
Number of purchased debt portfolios	86	59
Nominal value of purchased debt portfolios (PLNm)	4,926	3,776
Expenditure on debt portfolios (PLNm)	489*	571**

Source: the Company.

* The amount does not include the portfolio purchased from P.R.E.S.C.O.

** After taking into account the purchase price adjustment for discount

1.2.2 | Summary of operating results

The KRUK Group manages debt portfolios purchased for the Group's own account and provides debt management services for third parties. As at the end of 2015, the KRUK Group managed 3.3m debt collection cases, compared with 2.8m at the end of 2014. The nominal value of managed debts as at the end of 2015 increased by 19% relative to the end of 2014 and stood at PLN 31.4bn. Summary of operating results is presented in Table 3.

The increase in nominal value of managed debts in 2015 resulted mainly from significant investments in 86 debt portfolios with a total nominal value of PLN 4.9bn. Summary of debt portfolios purchased in 2014–2015 is presented in Table 4.

More than half of the expenditure was incurred in Poland, chiefly on unsecured retail debt portfolios.

1.2.3 | Business segments' performance

For a discussion of the performance of each business segment, see Section 3.2.1. – revenue by product.

1.2.4 | The Group's highlights compared with historical performance

Below are presented key items of the statement of profit or loss for the last five financial years. The Group's financial results have been steadily improving.

Since 2011, the Group's revenue rose 123% (CAGR of 22%), and net profit improved 208% (CAGR of 32%). Over the same period, EBIT and EBITDA went up 162% and 158%, respectively.

1.2.5 | Key financial ratios

Below are presented key profitability ratios of the KRUK Group for 2011–2015.

1.3 | Overview of the Group's operations in 2015

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

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

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

The headcount in all Group companies in 2015 totalled 2,635, relative to 2,465 at the end of 2014.

Financial results

In 2015, the Group's revenue grew 25% year on year, to PLN 611m. Over the same period, the KRUK Group reported a net profit of PLN 204m, up 35% year on year. In 2015, return on equity (ROE) stood at 26%, remaining unchanged from 2014. Detailed analysis of the financial results is presented in Section 3.2 Analysis of the consolidated financial data.

Investments in debt portfolios

In 2015, the Group invested PLN 489m to purchase 86 debt portfolios, mainly from banks (without accounting for the portfolio purchase agreement with P.R.E.S.C.O. – the transaction is scheduled to be

finalised in 2016), the majority of which were unsecured retail debt portfolios. The aggregate nominal value of all portfolios purchased in 2015 was PLN 4.9bn, and included 692 thousand new debts. The portfolios had a positive effect on the Group's results for 2015, and will continue to be an important driver of the Group's performance in the years to come. To compare, in 2014 the Group invested over PLN 571m in 59 debt portfolios, with a total nominal value of PLN 3.8bn, including two large mortgage debt portfolios acquired in Poland from Getin Noble Bank and BZ WBK, for PLN 230m and PLN 70m, respectively.

In 2015, the Group purchased portfolios on five foreign markets – Romania, the Czech Republic, Slovakia, Germany and Italy, where it invested a total of PLN

Table 5. KRUK Group's financial performance in 2011–2015

(PLN '000)	2015	2014	2013	2012	2011	CAGR 2015/2011
Revenue	611,234	487,920	405,611	342,992	274,031	22%
EBITDA	261,919	219,519	162,274	144,008	101,422	27%
EBIT	251,379	208,161	152,945	136,673	95,995	27%
Profit before tax	209,777	152,838	98,487	85,094	68,546	32%
Net profit	204,261	151,802	97,754	81,194	66,392	32%

Source: Consolidated Financial Statements.

Table 6. Profitability ratios of the KRUK Group in 2011–2015

	2015	2014	2013	2012	2011
EBITDA margin	43%	45%	40%	42%	37%
EBIT margin	41%	43%	38%	40%	35%
Pre-tax margin	34%	31%	24%	25%	25%
Net margin	33%	31%	24%	24%	24%
Return on assets (ROA)	11%	10%	8%	8%	8%
Return on equity (ROE)	26%	26%	24%	26%	28%

Source: In-house analysis based on the Consolidated Financial Statements.

231m (2014: PLN 114m). In August 2015, the Group purchased its first portfolio on the German market, and accomplished the same in Italy in December.

In 2015, the Group established KRUK Italia S.r.l with a registered office in Milan, which will operate on the Italian market, managing debt portfolios purchased by the KRUK Group and providing credit management services to third parties. The Group also established ItaCapital S.r.l, whose core business consists in investing in debt portfolios.

In 2015, the Group established KRUK España S.L. with a registered office in Madrid, which will operate on the Spanish market, managing debt portfolios purchased by the KRUK Group and providing credit management services to third parties.

Credit management services

Throughout 2015, the nominal value of debts outsourced to the Group for collection was PLN 4bn (relative to PLN 3.2bn in 2014). In 2015, banks were the main clients of the credit management segment. Credit management services remain an important element of the Group's strategy, as they are profitable and generate synergies with the debt purchase segment.

Other products and services

As part of its loss prevention services and to support debt management, the Group operates a credit reference agency – ERIF Debtor Register, which collects both negative and positive consumer and corporate credit histories. The ERIF Debtor Register operates under the Act on Access to Business Information and Exchange of Business Information, which defines the rules for the operation of a business information exchange system in Poland. The ERIF Debtor Register is one of the four business information agencies, but the only such agency in Poland to have its database reviewed quarterly by an independent auditor. As at January 4th 2016, the ERIF Debtor Register's

database contained 4m records, showing debts with a total nominal value of PLN 20.3bn, a 75% year-on-year increase in both respects. Revenue generated from ERIF BIG's information services in 2015 was PLN 7.2m, having grown by 16% year on year.

In order to diversify its revenue sources, in 2015 the KRUK Group also worked on developing a short-term cash loan service for formerly indebted individuals who have a track record of repaying their liabilities to the Group in a timely manner. Over 2015, the KRUK Group advanced more than 9,400 Novum cash loans, with a total value of PLN 47.3m. In 2015, the Novum project generated revenue of PLN 10.1m, up by 38% on the previous year.

Amicable settlement strategy

Since mid-2008, the Group has consistently pursued a strategy of amicable settlement with debtors. The strategy perceives indebted individuals as consumers unable to meet their obligations for various reasons, be it economic problems or other life difficulties.

In 2015, the Group launched its first large-scale advertising campaigns in the Czech Republic and Slovakia, whose key objectives were:

- to encourage debtors to contact KRUK by phone to arrange settlement or repayment of the debt;
- to incentivise debtors who had not responded to the Group's previous communications or kept postponing contact;
- to maintain the KRUK Group's presence in the media and to shape its positive image with debtors.

The focus of the autumn campaign carried out in Poland was the fourth product placement in the "Na dobre i na złe" TV show designed to:

- demonstrate the effect of debt on the family;
- motivate debtors to repay their debts;
- advertise the convenient forms of contact with the KRUK Group's field advisors and the possibility to split debt into instalments and sign a settlement at any location chosen by the customer.



Prague – beautiful capital of the Czech Republic



General information about the Group

- Business model
- Structure
- Share capital
- Human capital

2 | General information about the Group

2.1 | Business model

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

- consumer debts (retail, unsecured);
- consumer debts (retail, secured);
- corporate debts.

The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. The Group focuses on the banking market, relying on long-term relations with its key accounts. The debt management business is supported by the Group's law firm Kancelaria Prawna RAVEN and by RD ERIF BIG, a credit reference bureau. Moreover, the Group is developing its Novum loan service

addressed to those clients who previously repaid their debts towards the Group.

In 2007, the Group launched its operations on the Romanian market, and in 2011 – on the Czech and Slovak markets. In 2015, the Group purchased first debt portfolios in Germany and Italy, and established KRUK España S.L. with a registered office in Madrid, which will operate on the Spanish market, managing debt portfolios purchased by the KRUK Group and providing credit management services to third parties.

The existing business lines and the Group's growth potential are presented in the figure below.

Management of purchased debt portfolios

From 2002 to the end of 2015, the KRUK Group purchased 456 debt portfolios with a total nominal value of nearly PLN 26.6bn. The Group purchases debt

Figure. 1. KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions

Current business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Italy	Spain	Portugal	...
Debt portfolio purchases	Consumer	✓	✓	✓	✓	✓	✓			
	Mortgage	✓	✓							
	Corporate	✓	✓							
Debt collection outsourcing		✓	✓	✓	✓					
Consumer loans		✓								
Credit information		✓								



– Current status

Source: the Company.

portfolios in six geographic markets: Poland, Romania, the Czech Republic, Slovakia, Germany and Italy. The Group plans to purchase debt portfolios in other geographic markets, including Spain, where it has established a company to manage debt portfolios purchased by KRUK Group entities. The number of debt cases purchased by the Group in 2002–2015 was 3.7 million, and in 2015 alone the Group purchased over 692 thousand cases. Each debt portfolio transferred to the KRUK Group is thoroughly analysed and valued based on detailed information and data about the debtors, products and related security, behavioural data, 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 behavioural data, which the Company has been accumulating since 2003. By the end of 2015, the Group performed 2,800 debt portfolio valuations. In purchased debt management, the Group's main strategy provides for out-of-court settlement with debtors based on mutually agreed optimum terms of debt repayment reflecting the debtor's current financial capabilities. This approach to debt collection is more effective, as it involves spreading repayment over instalments which the debtor is able to pay.

Credit management services

The Group manages receivables for third parties, applying instruments suited to a given debt portfolio (service period, tools and processes used) and the client's specific requirements. The activities are carried out in a professional manner, in accordance with applicable laws. The Group makes extensive use of efficient operational methods which rely on advanced IT systems, such as the Delfin platform, which supports the entire credit management process. The Group's innovative offering in Poland 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 requirements and credit management policies. In 2015, the nominal value of debts outsourced to the Group for collection was PLN 4.0bn.

Other services – ERIF and Novum

The Group's innovative offering in Poland includes credit reference agency services, ERIF BIG Debtor Register, which operates in accordance with the Act on Access to Business Information and Exchange of Business Information. ERIF collects and provides information on debtors (negative information), as well as on consumers who are timely payers (positive information).

As part of the Novum consumer finance service, the Group offers short-term cash loans of up to PLN 10,000, for periods from 3 to 30 months, to persons who have repaid or will soon repay their debts to the Group.

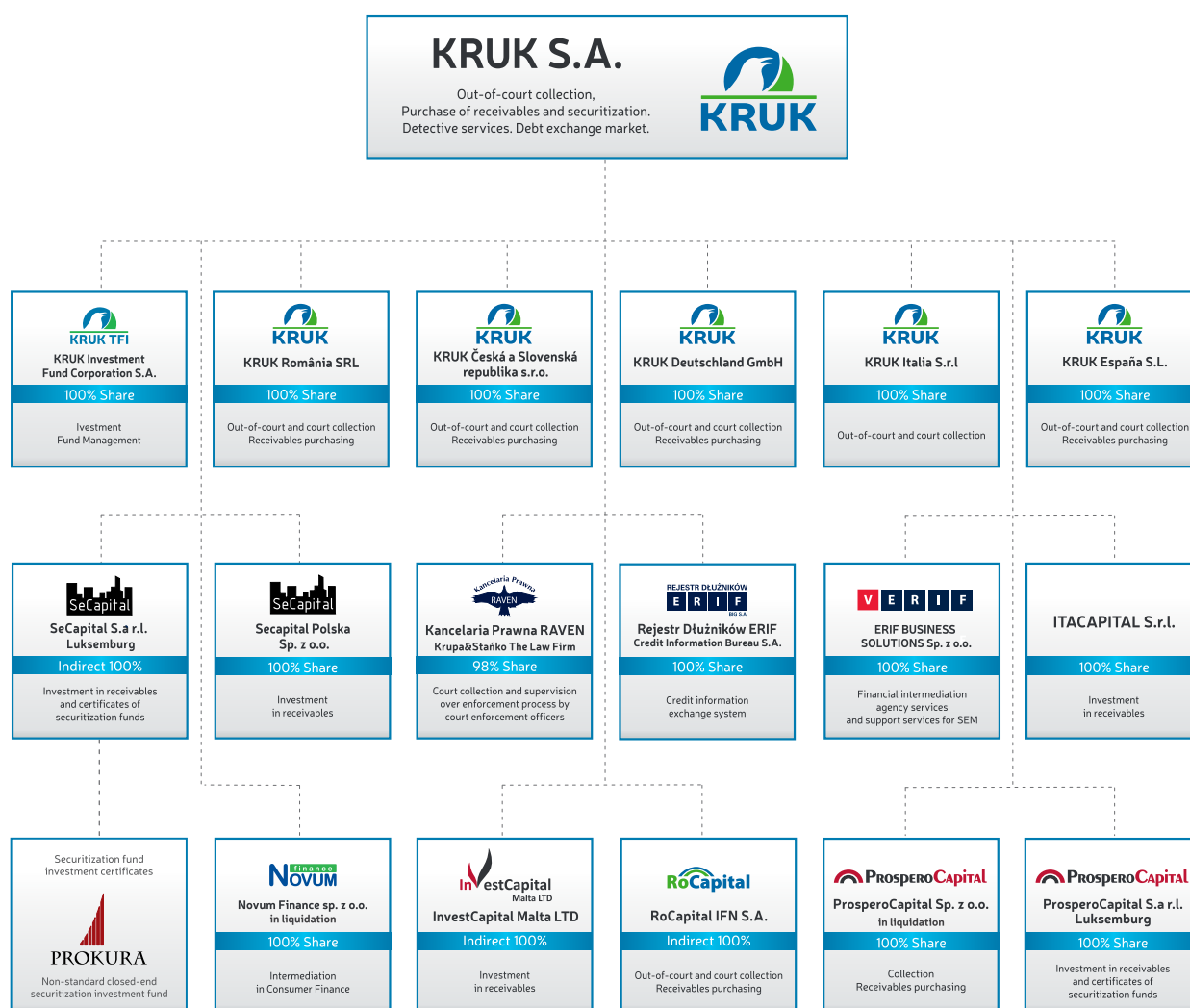
The number of debt cases purchased by the Group in **2002–2015** was **3.7 million**, and in 2015 alone the Group purchased over **692 thousand cases**.

2.2 | Structure

2.2.1 | Description of the Group's structure

The structure of the KRUK Group as at December 31st 2015 and KRUK S.A.'s ownership interests in subsidiaries are shown in Figure 2.

Figure 2. Structure of the KRUK Group



Source: the Company.

Table 7. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK România SRL	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
SeCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	N/A	Securitisation and investment vehicles which employ professional risk assessment and credit management methodologies All certificates issued by the securitisation funds are held by SeCapital S.à r.l.
Secapital Polska Sp. z o.o.	Wrocław	Management of securitised debt
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
Novum Finance Sp. z o.o. (in liquidation)	Wrocław	In liquidation
KRUK Česká a Slovenská republika s.r.o.	Hradec Králové	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of the Prokura fund
InvestCapital Malta Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
ProsperoCapital Sp. z o.o. w likwidacji (in liquidation)	Wrocław	Financial services, including debt management and trading
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group in Italy and other European countries.
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets.
KRUK España S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading.
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets

Source: the KRUK Group.

As at December 31st 2015 the Group comprised KRUK S.A. (the Parent) and 18 subsidiaries. For more information on the subsidiaries, see Table 7.

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

From the end of the reporting period to the date of approval of this report for issue, there were no changes in the composition of the KRUK Group and in the information on the Group companies presented above.

2.2.2 | Changes in the Group's structure in 2015

ProsperoCapital Sp. z o.o.

On October 22nd 2015, the Extraordinary General Meeting of ProsperoCapital Sp. z o.o. of Wrocław passed a resolution to dissolve the company. Since the date of its establishment, i.e. May 29th 2014, the company has never commenced operating activities and its tasks have been carried out by other KRUK Group companies. Mr Michał Zasępa has been appointed liquidator of the subsidiary.

KRUK Italia S.r.l

On November 13th 2015, the Articles of Association of KRUK Italia S.r.l of Milan were signed. The company's principal business activities consist in credit management services, and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries. KRUK S.A. holds 100% of shares in the company's share capital.

ItaCapital S.r.l

On November 13th 2015, the Articles of Association of ItaCapital S.r.l of Milan were signed. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.

KRUK España S.L.

On November 17th 2015, the Articles of Association of KRUK España S.L. of Madrid were signed. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading. KRUK S.A. holds 100% of shares in the company's share capital.

ProsperoCapital S.à r.l.

On December 10th 2015, the Articles of Association of ProsperoCapital S.à r.l. of Luxembourg were executed before a notary public. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.

Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)

On June 29th 2015, Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus non-standard securitisation closed-end investment fund) was removed from the court register.

Prokura NS FIZ Fund investment certificates

In 2015, some of the Prokura NS FIZ Fund's investment certificates were redeemed, which resulted in changes to the register of the Fund's certificate holders. As at the end of 2015, the total number of Prokura NS FIZ investment certificates was 61,174,786 (2014: 65,202,830). SeCapital S.à r.l. is the only investor in Prokura NS FIZ, holding 100% of its investment certificates.

Changes in the share capital of SeCapital S.à r.l.

In 2015, SeCapital S.à r.l.'s share capital was increased and reduced. As a result, as at the end of 2015, the share capital amounted to PLN 1,114,579,000 (2014: PLN 990,975,000). On November 25th 2015, the share capital of SeCapital S.à r.l. of Luxembourg (SeCapital), KRUK's subsidiary, was increased from PLN 933,623,000 to PLN 1,065,579,000, through an issue of 7,620 new Category A shares and 124,336 new Category F shares, with a par value of PLN 1,000 per share and total par value of PLN 131,956,000. All of the new shares were subscribed for by InvestCapital Malta Ltd. (InvestCapital), the Company's subsidiary. The new shares represented 12.4% of SeCapital's share capital. The carrying amount of the shares in the Company's accounting books is PLN 1.1 thousand per share. Following the share capital increase, InvestCapital held 324,527 shares with a par value of PLN 1,000 per share and total par value of PLN 324,527,000, while KRUK S.A. held directly 741,052 shares with a par value of PLN 1,000 per share and total par value of PLN 741,052,000. The total number of shares held by KRUK S.A., directly and indirectly, is 1,065,579, and their total par value is PLN 1,065,579,000. The shares were subscribed for at par value and paid for in cash. The cash contribution was financed with proceeds from InvestCapital's share capital increase by the

Company. For more information, see Current Report No. 75/2015 of November 25th 2015.

Changes in the share capital of InvestCapital Ltd.

In 2015, InvestCapital Ltd.'s share capital was increased and reduced. As a result, as at the end of 2015, the share capital amounted to PLN 387,240,000 (2014: PLN 20,000).

On November 18th 2015, the share capital of Malta-based InvestCapital Ltd. (InvestCapital), KRUK's subsidiary, was increased from PLN 225,940,000 to PLN 370,940,000, through an issue of 1,450,000 new shares with a par value of PLN 100 per share, and a total par value of PLN 145,000,000. All new shares were subscribed for by KRUK S.A. The new shares represented 39% of InvestCapital's share capital. The carrying amount of the shares in the Company's accounting books is PLN 100 per share. Following the share capital increase, KRUK S.A. held directly 3,709,399 shares with a par value of PLN 100 per share, and a total par value of PLN 370,939,900. The total number of shares held by KRUK S.A., directly and indirectly, is 3,709,400, and their total par value is PLN 370,940,000. For more information, see Current Report No. 72/2015 of November 18th 2015.

2.2.3 | Changes in the Group's significant management policies

In 2015, there were no changes to any significant policies of managing the Parent and its subsidiaries.

2.2.4 | Consolidated entities

All Group entities are fully consolidated.

2.2.5 | Company branches

The Company has no branches.

2.3 | Share capital

2.3.1 | Share capital structure

As at December 31st 2015, the share capital of the Company totalled PLN 17,398,348 and was divided into 17,398,348 shares with a par value of PLN 1 per share.

Table 8. Structure of the Company's share capital as at December 31st 2015

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	498,008
TOTAL	17,398,348

As at the date of release of this report, the Company's share capital amounted to PLN 17,515,746 and was divided into 17,515,746 shares with a par value of PLN 1 per share.

Table 9. Structure of the Company's share capital as at the date of release of this report

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	615,406
TOTAL	17,515,746

Source: the Company.

2.3.2 | Changes in the share capital and conditional share capital

Changes in the share capital of KRUK S.A. in 2015

On January 16th 2015, the court registered an increase of PLN 87,086.00 in the Company's share capital. The increase was made as part of a conditional share capital increase through an issue of 87,086 Series E shares with a par value of PLN 1.00 per share, on the basis of Resolution No. 1 adopted by the Company's Extraordinary General Meeting of March 30th 2011. The entry of the share capital increase in the National Court Register is of declaratory nature. The share capital was increased upon the registration of Series E shares in the investors' securities accounts on December 1st 2014, which is the date of their registration in the Central

Securities Depository of Poland. The issue of E Series shares was related to the exercise of rights attached to Series A subscription warrants by eligible persons. Series A warrants were issued as part of the incentive addressed to key management members at KRUK S.A. and the Group's companies. For more information, see Current Report No. 3/2015 of January 16th 2015.

On April 30th and October 30th 2015, the Central Securities Depository of Poland registered, respectively, 181,091 and 106,575 Series E shares in the Company, issued as part of a conditional share capital increase. On those dates, the shares were registered in the investors' securities accounts and consequently (in accordance with Art. 452.1 in conjunction with Art. 451.3 of the Commercial Companies Code) an increase in the Company's share capital within the limits of the conditional share capital pursuant to Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011, was effected. For more information, see Current Report No. 17/2015 of April 29th 2015 and No. 66/2015 of October 29th 2015. Following registration of the shares in the investors' securities accounts, the Company's share capital was PLN 17,398,348.00 and comprised 17,398,348 shares.

The Series E shares were entered in the National Court Register on May 26th 2015 (181,091 shares), and on December 4th 2015 (106,575 shares). For more information, see Current Report No. 29/2015 of May 27th 2015 and No. 80/2015 of December 7th 2015.

Further, on February 25th 2016, the Central Securities Depository of Poland registered 117,398 Series E shares of the Company, issued as part of a conditional share capital increase. On that date, the shares were registered in the investors' securities accounts and consequently (in accordance with Art. 452.1 in conjunction with Art. 451.3 of the Commercial Companies Code) an increase in the Company's share capital within the limits of the conditional share capital pursuant to Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011, was effected. For more information, see Current Report No. 12/2016 of February 23rd 2016. Following registration of the shares in the investors' securities accounts, the Company's share capital totals PLN 17,515,746 and is divided into 17,515,746 shares.

2.4 | Human capital

2.4.1 | Qualified personnel

A key success factor for the KRUK Group is its highly qualified staff. The Group employs experts with extensive credit management experience. Some of the

managers have previous experience of working for banks, financial brokerage firms, telecoms, and large distribution companies. The Company's professional risk management team has a central role in assessing and valuing debt portfolios for purchase, and in assessing debt collection performance. The Group also has a strong team of software developers and IT professionals who focus on developing the IT infrastructure. The vast majority of the Company's employees are university graduates.

Great emphasis is placed by the Group on employer branding efforts, designed to reach more potential employees and increase awareness of the Group's activities and development opportunities it offers. In 2015, these efforts were manifest in the Group's participation in career fairs and involvement in the "Polish Champion" programme. KRUK is also a signatory of the "Diversity Charter".

Table 10 sets out the Group's employment data (full- and part-time positions under employment contracts) as at the dates indicated.

Table 10. Group's workforce as at December 31st 2015

Company	Employment
KRUK S.A.	1,367
Subsidiaries	1,268
Total	2,635

Source: the Company.

Table 11 sets out the Group's employment data (full- and part-time positions under employment contracts) by geographical regions of the Groups' operations.

Table 11. Group's workforce by geographical regions as at December 31st 2015

Geographical regions	Employment
Poland	1,949
Foreign markets	686
Total	2,635

Source: the Company.

In 2015, 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).

As the highly-qualified staff is its vital asset, the Group makes every effort to ensure development of its team and to provide optimum working conditions. In 2015, the Group operated:

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

The Group's personnel, whether working under employment contracts or engaged under civil-law contracts, are eligible to participate in the incentive schemes operated by the Group. Additional benefits offered to employees include co-financing of post-graduate studies, training, acquisition of qualifications, specialist English courses, private medical care, 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 in positions eligible to participate in the incentive schemes may also receive performance-based remuneration, including bonuses for the accomplishment of tasks assigned to individual employees and bonuses for the 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 over one hundred experts in such areas as credit management, sales, high-volume process management, finance, debt portfolio valuation, HR management, legal support, IT, marketing, and public relations. Stability of the Group's management team, as manifest in its low turnover, combined with extensive expertise developed over the years, are a source of major competitive advantage for the Group. The key managers are also covered by an incentive scheme.

On December 8th 2015, the Management Board passed Resolution No. 154/2015 to implement the "Remuneration management policy for the KRUK Group" at KRUK S.A. The policy is a component of informed planning of employee remuneration and is designed to control the rate of increase in employment levels at the Group, in line with the Group's strategy. It applies to all of the Group's employees and forms the foundation for an effective, uniform and transparent remuneration system designed to support the implementation of business objectives.

2.4.2 | Incentive Scheme

2.4.2.1 | Incentive scheme for 2011–2014

The KRUK Group operates an incentive scheme for key management personnel of the Parent and Group companies (Incentive Scheme, Scheme).

The rules of the Incentive Scheme for 2011–2014 were adopted by way of Resolution No. 1/2011 of KRUK's Extraordinary General Meeting of March 30th 2011, and amended by a resolution of the Extraordinary General Meeting of August 29th 2011. Under the Scheme, eligible persons will have the right to acquire Company shares on preferential terms, set forth in the Resolution and in the Rules of the Incentive Scheme. The eligible persons are members of the Management Board (excluding the President), Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

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

In connection with the Incentive Scheme, the Extraordinary General Meeting approved a conditional share capital increase of up to PLN 845,016 through an issue of up to 845,016 Series E ordinary bearer shares. The purpose 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 Incentive Scheme. Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series E Shares at an issue price equal to the issue price of Company shares in the initial public offering, i.e. PLN 39.70 per share, not earlier than six months after the subscription for the 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 KRUK Supervisory Board on condition that two financial ratios reflecting the KRUK Group's consolidated results – EPS and EBITDA or ROE – reach predefined levels, according to the following criteria:

- Increase in EPS in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 17.5%.
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EBITDA increases by at least 17.5%.
- ROE in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 20%.

Tranche 1

Under Tranche 1, eligible persons, including Management Board Members, were offered subscription warrants pursuant to the Supervisory Board's resolution of July 20th 2012 on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2011, and determining the list of eligible persons under Tranche 1 for 2011 and the list of persons eligible under Tranche 1 for 2011 from the Reserve Pool.

On this basis, in 2012 eligible persons, including Management Board Members, subscribed for 189,790 warrants, of which 165,233 warrants were converted into Series E Company shares in 2013–2015.

As at December 31st 2015, persons eligible under Tranche 1 held a total of 24,557 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 1 held a total of 21,291 subscription warrants. 168,499 warrants were converted into Series E Company shares.

Tranche 2

On August 5th 2013, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2012, and determining the list of eligible persons under Tranche 2 for 2012. The Supervisory Board established that the requirements set forth in the Incentive Scheme

for granting the maximum number of subscription warrants in Tranche 2 for 2012 had been fulfilled, and determined the list of eligible persons in Tranche 2 for 2012 and the list of persons eligible in Tranche 2 for 2012 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2012 Management Stock Option Plan to the persons named in the lists, including members of the Management Board. 201,758 subscription warrants were delivered to the eligible persons on October 1st 2013, of which 172,987 warrants were converted into Series E Company shares in 2013–2015.

As at December 31st 2015, persons eligible under Tranche 2 held a total of 28,771 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 2 held a total of 24,634 subscription warrants. 177,124 warrants were converted into Series E Company shares.

Tranche 3

On June 12th 2014, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2013, and determining the list of eligible persons under Tranche 3 for 2013. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 3 for 2013 had been fulfilled, and determined the list of eligible persons in Tranche 3 for 2013 and the list of persons eligible in Tranche 3 for 2013 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2013 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 190,651 subscription warrants were delivered to the eligible persons on June 26th 2014, of which 159,788 warrants were converted into Series E Company shares in 2015.

As at December 31st 2015, persons eligible under Tranche 3 held a total of 30,863 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 3 held a total of 20,687 subscription warrants. 169,964 warrants were converted into Series E Company shares.

Tranche 4

On July 3rd 2015, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2014, and determining the list of eligible persons under Tranche 4 for 2014. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 4 for 2014 had been fulfilled, and determined the list of eligible persons in Tranche 4 for the year.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2014 Management Stock Option Plan to the persons named in the

lists, including Management Board Members. 262,817 subscription warrants were delivered to the eligible persons on July 7th 2015.

As at December 31st 2015, persons eligible under Tranche 4 held a total of 262,817 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 4 held a total of 162,998 subscription warrants. 99,819 warrants were converted into Series E Company shares.

The number of warrants allotted to Management Board Members under Tranche 4 for 2014 is presented in Table 12.

Table 12. Number of warrants allotted to current Management Board Members under Tranche 4 for 2014

Name and surname	Position	Number of warrants granted under Tranche 4 for 2014
Urszula Okarma	Member of the Management Board	16,130
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	27,130

Source: the Company.

Table 13. Number of subscription warrants held by Management Board Members as at December 31st 2015

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	16,130
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	32,637

Source: the Company.

Table 14. Number of subscription warrants held by Management Board Members as at the date of issue of this report:

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	0
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	32,637

Source: the Company.

The number of warrants held by Management Board Members as at December 31st 2015 is presented in Table 13.

The number of warrants held by Management Board Members as at the date of publication of this report is presented in Table 14.

2.4.2.2 | Incentive scheme for 2015–2019

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

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

For the purposes of the 2015–2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015–2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able

to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an annualised average basis, by no less than 13.00% relative to the base year.

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

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

In its Resolution of September 8th 2014, the Supervisory Board determined and approved Rules for the Management Stock Option Scheme for 2015–2019.

On September 2nd 2014, the Management Board of KRUK S.A. determined the list of persons who are Members of the Company's Management Board and are eligible to participate in the 2015–2019 Stock Option Scheme (the "Base List of Management Board Members") and the list of persons who are not Members of the Company's Management Board but are eligible to participate in the 2015–2019 Stock Option Scheme (the "Base List of Non-Management Board Members").

The list of eligible persons who are not Members of the Company's Management Board was subsequently amended and extended under the Management Board's Resolution No. 79/2015 of September 3rd 2015 and Resolution No. 113/2015 of October 29th 2015.

The Company's Management Board Members hold no rights to KRUK shares other than those attached to the subscription warrants.



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Operating and financial review

- Policies applied in the preparation of annual consolidated financial statements
- Analysis of the consolidated financial data
- Securities issued
- Financial instruments
- Important events with a bearing on the Group's operating and financial performance
- Assessment of financial resources management
- Dividend policy
- Auditors

3 | Operating and financial review

3.1

Policies 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 which are measured at fair value through profit or loss, and hedging derivative instruments.

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

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

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

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

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the

acquisition price, and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit or loss for the current period. All interest income is recognised as an increase in the portfolio value. All recoveries collected during the period are recognised as a decrease in the portfolio value.

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

3.2 | Analysis of the consolidated financial data

3.2.1 | Revenue by product

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

In Table 15, is presented a historical breakdown of cash inflows from purchased debt portfolios as a share in the amount spent to purchase the portfolios.

In 2015, the Group's total revenue was PLN 611m, up 25% on 2014. The Group continued to pursue the strategy of consolidating its lead in the growing debt collection market. In 2015, the Group focused on the segment of purchased debt collection. As a consequence, revenue from debt purchase in 2015 reached PLN 564m, while revenue from credit management amounted to PLN 30m.

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

In 2015, the Group's gross profit was PLN 358m, having risen by PLN 64m, or 22%, on 2014. This strong

Table 15. Weighted average recovery curve in 2005–2015

Year	1	2	3	4	5	6	7	8	9	10	11	Total
Cash recoveries in each of the years as % of funds spent	20%	41%	39%	35%	35%	34%	28%	22%	26%	30%	16%	325%

Source: the Company.

Table 16. Performance of individual reporting segments

PLN '000	Jan 1 2015 – Dec 31 2015	Jan 1 2014 – Dec 31 2014
Revenue	611,234	487,920
Purchased debt portfolios	563,646	442,374
Collection services	29,812	31,729
Other products	17,776	13,817
Direct and indirect costs	(253,315)	(193,983)
Purchased debt portfolios	(225,041)	(166,510)
Collection services	(20,610)	(19,368)
Other products	(7,664)	(8,105)
Gross profit	357,919	293,937
Purchased debt portfolios	338,605	275,864
Collection services	9,202	12,361
Other products	10,112	5,712
Administrative expenses	(94,401)	(72,389)
Depreciation and amortisation expense	(10,540)	(11,358)
Other income	2,589	1,869
Other expenses (unallocated)	(4,188)	(3,898)
Finance income/costs	(41,602)	(55,323)
Profit before tax	209,777	152,838
Income tax	(5,516)	(1,036)
Net profit	204,261	151,802

Źródło: Spółka

gross profit growth was attributable to the result on purchased debt portfolios, with the key contributing factor being the high investments made in this market segment both in 2015 and in previous years (in total, over the last four years the Group invested PLN 1.7bn in new debt portfolios).

Revenue derived from purchased debt portfolios increased 27% from a year earlier, which translated into improved gross profit of the debt purchase segment (up 23% year on year).

Gross profit earned by the credit management segment decreased by PLN 3m, or 26%, relative to 2014, driven primarily by the growing competition in credit management on all markets on which the KRUK Group operates.

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

3.2.2 | Geographical structure of sales

The Group operates in three main geographical areas: in Poland, Romania and the other foreign markets (the Czech Republic, Slovakia, Germany and Italy).

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

In 2015, the Group's revenue rose significantly in Poland and Romania, while on other markets it remained stable.

In value terms, the largest increase in revenue was seen in Romania. The revenue generated on that

market in 2015 was PLN 75m, or 41%, higher year on year. This resulted from a high recovery rate and record-high investments in debt portfolios in 2015. The Group's investments in debt portfolios in Romania were 65% higher than in the previous year.

In the Polish market, the Group earned revenue of PLN 332m, up PLN 48m, or 17%, over 2014.

The revenue earned in other foreign markets came from the Group's business in the Czech Republic, Slovakia and Germany.

In Italy, the Group purchased its first debt portfolio in December 2015 and did not generate any material revenue in 2015.

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

The Group's total assets were PLN 1,836m, having grown 21% relative to the end of 2014.

The largest increase was posted under investments, and was attributable to debt portfolio purchases. As funds had to be raised to finance the debt purchases, an increase was also recorded in debt under bank borrowings and other debt instruments (up by PLN 96m). In 2015, the Group purchased debt portfolios for a total of PLN 489m, which means they were mostly financed with the Group's own funds.

3.2.4 | Financial performance

There are no material risks to the Group's current or future financial position. In 2015, the Group's net profit was PLN 204m, up PLN 52m (or 35%) year on year.

In 2015, the Group invested PLN 489m in the debt purchase segment.

Table 17. Performance of individual geographical segments

PLN '000	Jan 1 2015 – Dec 31 2015	Jan 1 2014 – Dec 31 2014
Revenue	611,234	487,920
Poland	332,242	284,389
Romania	258,152	182,663
Other foreign markets	20,841	20,868

Source: the Company.

Table 18. Group's assets

As at December 31st 2015 PLN '000	Dec 31 2015	Dec 31 2014
Assets		
Cash and cash equivalents	140,742	70,545
Trade receivables	8,391	10,949
Investments	1,620,579	1,380,179
Other receivables	26,719	16,534
Inventories	587	524
Property, plant and equipment	19,957	20,265
Other intangible assets	11,805	11,018
Goodwill	1,024	1,024
Deferred tax asset	2,841	3,539
Other assets	3,469	2,070
Total assets	1,836,115	1,516,647

Source: the Company.

Table 19. Group's equity and liabilities

As at December 31st 2015 PLN '000	Dec 31 2015	Dec 31 2014
Equity and liabilities		
Liabilities		
Hedge derivatives	589	2,668
Trade and other payables	83,555	60,613
Employee benefit obligations	29,239	27,646
Current tax liability	3,178	1,724
Liabilities under borrowings and other debt instruments	935,011	838,649
Provisions	264	264
Total liabilities	1,051,836	931,564
Equity		
Share capital	17,398	17,110
Share premium	64,382	53,249
Exchange differences on translating foreign operations	(7,674)	(3,859)
Other capital reserves	68,956	55,624
Retained earnings	641,182	462,893
Equity attributable to owners of the Parent	784,244	585,017
Non-controlling interests	34	66
Total equity	784,278	585,083
Total equity and liabilities	1,836,115	1,516,647

Source: the Company.

Table 20. Consolidated statement of profit or loss

For the year ended December 31st 2015 PLN '000	Jan 1 2015 – Dec 31 2015	Jan 1 2014 – Dec 31 2014
Revenue	611,234	487,920
Other income	2,589	1,869
	613,823	489,789
Employee benefits expense	(169,432)	(137,246)
Depreciation and amortisation expense	(10,540)	(11,358)
Contracted services	(48,344)	(41,302)
Other expenses	(134,128)	(91,722)
	(362,444)	(281,628)
EBIT	251,379	208,161
Finance income	2,792	1,392
Finance costs	(44,394)	(56,715)
Net finance costs	(41,602)	(55,323)
Profit before tax	209,777	152,838
Income tax	(5,516)	(1,036)
Net profit for the period	204,261	151,802
Net profit attributable to:		
Owners of the Parent	204,227	151,736
Non-controlling interests	34	66
Net profit for the period	204,261	151,802
Earnings/(loss) per share		
Basic (PLN)	11.84	8.95
Diluted (PLN)	11.48	8.72

Source: the Company.

3.2.5 | Cash flows

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

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

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

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

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

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

The KRUK Group did not have any material off-balance sheet items in 2015.

3.2.7 | Financial ratios

3.2.7.1 | Profitability ratios

Table 21 below presents the key profitability ratios of the KRUK Group.

In 2015, the KRUK Group's net margin and pre-tax margin improved year on year. Both EBITDA and EBIT margins dropped by 2 pp relative to 2014. The decline stemmed from high operating expenses incurred in 2015, which were related to a large number of cases that were brought to court and in respect of which enforcement action was taken. These activities should be seen as investments, which will enable the Group to improve its recovery rate in the future.

Despite lower EBITDA and EBIT margins, the Group's net margin improved year on year by 2 pp, mainly due to reduced finance costs.

In 2015, the KRUK Group also recorded higher ROA (up 1 pp), with ROE unchanged.

3.2.7.2 | Debt ratios

The Table 22. presents the key debt ratios of the KRUK Group.

In accordance with its capital management policy, the Group maintains a solid capital base to ensure business growth, while maintaining the trust and confidence of investors, lenders and other partners. The Parent's Management Board monitors the debt ratios

Table 21. Profitability ratios

Profitability ratios	Period ended	
	Dec 31 2015	Dec 31 2014
EBITDA margin (operating profit plus depreciation/amortisation)	43%	45%
EBIT margin (operating profit)	41%	43%
Pre-tax margin	34%	31%
Net margin	33%	31%
Return on assets (ROA)	11%	10%
Return on equity (ROE)	26%	26%

Source: the Company.

Formulas used to calculate the ratios:

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

EBIT margin – operating profit for the period / total revenue

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

Net margin – net profit for the period / total revenue

ROA – net profit for the period / total assets

ROE – net profit for the period / total equity

on an ongoing basis and strives to keep them at safe levels.

Compared with the previous year, in 2015 the Group's key debt ratios decreased.

In 2015, the total debt ratio was lower by 4 pp relative to the previous year, while the debt to equity ratio declined by 25 pp. Lower debt ratios resulted from the rapid growth of the Group's net profit, which spiked 35% year on year, with a concurrent 13% increase in liabilities.

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

3.3 | Securities issued

3.3.1 | Company shares

On April 30th and October 30th 2015, the Central Securities Depository of Poland registered, respectively, 181,091 and 106,575 Series E shares in the Company, issued as part of a conditional share capital increase. On those dates, the shares were registered in the investors' securities accounts and consequently (in

accordance with Art. 452.1 in conjunction with Art. 451.3 of the Commercial Companies Code) an increase in the Issuer's share capital within the limits of the conditional share capital, through the issue of Series E ordinary bearer shares with a par value of PLN 1 per share pursuant to Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011, was effected. As at December 31st 2015, the share capital of the Company totalled PLN 17,398,348.00 and was divided into 17,398,348 shares.

On February 3rd 2016, the Company applied to the Central Securities Depository of Poland for registration of 117,398 series E Company shares issued as part of a conditional share capital increase pursuant to Resolution No. 1/2011 of the Company Extraordinary General Meeting of March 30th 2011. The shares were registered on February 25th 2016. Following registration of the shares in the investors' securities accounts, the Company's share capital totals PLN 17,515,737 and is divided into 17,515,746 shares.

3.3.2 | Company bonds

In 2015, the Company issued unsecured bonds with a total nominal value of PLN 243m, which included:

- public offering of 133,000 Series W¹ bonds with a total nominal value of PLN 13m;
- private placement of 100,000 Series Z¹ bonds with a total nominal value of PLN 100m;

Table 22. Debt ratios

Debt ratios	Period ended	
	Dec 31 2015	Dec 31 2014
Total debt ratio	57%	61%
Net financial debt ratio	1.01	1.31
Debt to equity ratio	134%	159%
Short-term debt ratio	19%	14%
Long-term debt ratio	39%	48%
Current ratio	5.3	7.1
Quick ratio	5.3	7.0

Source: the Company.

Formulas used to calculate the ratios:

Total debt ratio – total liabilities / total equity and liabilities

Net financial debt ratio – (non-current and current liabilities under borrowings and other financial liabilities – cash and cash equivalents) / total equity

Debt to equity ratio – total liabilities / total equity

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

- private placement of 100,000 Series AA¹ bonds with a total nominal value of PLN 100m;
- public offering of 300,000 Series W² bonds with a total nominal value of PLN 30m.

The bonds were issued at par.

For the bond issues made in 2015, the Company did not specify any issue objectives under the Act on Bonds. The issue proceeds were used to finance debt purchases by the Group, refinance the Company's or the Group's debt, or finance the Group's growth through acquisitions.

Detailed information on the bond issues carried out in 2015 is presented below.

Issue of Series W¹ bonds

On the basis of the Management Board's resolutions which came into force on May 7th 2015 and June 8th 2015, the Company issued 133,599 bonds with a nominal value of PLN 100 per bond. The total value of the issue was PLN 13m. The bonds are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

Issue of Series Z¹ bonds

On the basis of the Management Board's resolutions which came into force on May 5th 2015 and June 8th 2015, the Company issued 100,000 bonds with a nominal value of PLN 1,000 per bond. The total value of the issue was PLN 100m. The bonds are due 72 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated, or at the option of a bondholder in specific circumstances

defined in the terms and conditions of the bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

Issue of Series AA¹ bonds

On the basis of the Management Board's resolutions which came into force on October 28th 2015 and November 9th 2015, the Company issued 100,000 bonds with a nominal value of PLN 1,000 per bond. The total value of the issue was PLN 100m. The bonds are due 72 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or in other cases set out in the Act on Bonds, or at the option of a bondholder in specific circumstances defined in the terms and conditions of the bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

Issue of Series W² bonds

On the basis of the Management Board's resolutions which came into force on November 13th 2015 and November 26th 2015, the Company issued 300,000 bonds with a nominal value of PLN 100 per bond. The total value of the issue was PLN 30m. The bonds are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or in other cases set out in the Act on Bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

Issue of Series AA² bonds

On February 25th 2016, the Company's Management Board passed a resolution to issue Series AA2 bonds due within 72 months from the allotment date, with a total value of up to PLN 150m.

Table 23. Bond issues in 2015

Bond Series	Nominal value (PLN)	Issue date	Redemption date	Interest rate	Interest payment
W ¹ Series	13,359,000	Jun 8 2015	Jun 8 2020 60 months	Fixed: 4.5%	Every 3 months
Z ¹ Series	100,000,000	Jun 8 2015	Jun 8 2021 (72 months)	3M WIBOR + 3.10%	Every 3 months
AA ¹ Series	100,000,000	Nov 13 2015	Nov 13 2021 (72 months)	3M WIBOR + 3.00%	Every 3 months
W ¹ Series	100,000,000	Nov 26 2015	Nov 26 2020 60 months	3M WIBOR + 2.90%	Every 3 months

Source: the Company.

Redemption of bonds

In 2015, the Company redeemed the debt securities specified in Table 24 at their maturity dates.

Liabilities under bonds

As at December 31st 2015, the liabilities under outstanding bonds issued by the Company by the end of 2015 stood at PLN 692m (at nominal value.)

3.4 Financial instruments

3.4.1 Use of financial instruments

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

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

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

- Borrowings;
- liabilities under debt securities;
- lease liabilities;
- trade and other payables.

Derivatives

In 2015, The Company was party to three contracts entered into in accordance with the terms of interest rate swap (IRS) transactions executed between the Company and Bank Zachodni WBK in 2013:

- a contract entered into in accordance with the terms of a transaction executed on July 19th 2013 to hedge the 3M WIBOR-linked part of the coupon on Series M1 bonds with a nominal value of PLN 40m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.28%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on March 21st 2016;
- a contract entered into in accordance with the terms of a transaction executed on October 16th 2013 to hedge the 3M WIBOR-linked part of the coupon on Series M1 bonds with a nominal value of PLN 44m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.50%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on March 21st 2016;
- a contract entered into in accordance with the terms of a transaction executed on October 24th 2013 to hedge the 3M WIBOR-linked part of the coupon on Series O2 and P1 bonds with a nominal value of PLN 40m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.30%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on June 6th 2016.

3.4.2 Financial instrument risk exposure

3.4.2.1 Credit risk

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

Table 24. Bonds redeemed by the Company in 2015

Bond Series	Redemption date	Number of bonds redeemed	Nominal value (PLN)
I ³	Jan 5 2015	17,000	17,000,000
M ¹ + N ¹	Mar 21 2015 and Sep 21 2015	24,000	24,000,000

Source: the Company.

3.4.2.2 | Liquidity risk

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

3.4.2.3 | Market risk

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

3.4.3 | Objectives and methods of financial risk management

The Group's risk management policies are established to identify and analyse the Group's risk exposure, to set appropriate risk limits and controls, and to monitor risks and compliance with the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Group's activities. Through appropriate training 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 Table 25.

3.4.3.1 | Credit risk

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

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

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

3.4.3.2 | Liquidity risk

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

Liquidity risk management tools used at the Group include:

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

3.4.3.3 | Market risk

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

Table 25. Assets relating to credit risk

PLN '000	Dec 31 2015	Dec 31 2014
Financial instruments at fair value through profit or loss	724,832	861,775
Financial assets measured at amortised cost	873,300	504,762
Investment property	434	161
Loans	22,013	13,481
Receivables	35,110	27,483
	1,655,689	1,407,662

Source: the Company.

3.5 | Important events with a bearing on the Group's operating and financial performance

3.5.1 | Material events during the financial year

Events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in 2015 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 "Agreements executed by the KRUK Group".

3.5.2 | Non-recurring factors and events

In 2015, the Group's business was not affected by any non-recurring factors or events.

3.6 | Assessment of financial resources management

3.6.1 | Financial forecasts

The KRUK Group did not publish any financial forecasts for 2015.

3.6.2 | Assessment of future financial standing

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

resources. The Company is able to monitor and service its debts, and manages its financial resources in a reasonable way. For detailed information, see the consolidated financial statements.

3.7 | Dividend policy

3.7.1 | Historical data on dividend payments

Information on dividend payments in the last five financial years is presented in Table 26.

Calendar of events related to dividend payment in 2015 is presented in Table 27.

In the reporting period and as at the date of approval of this report, KRUK S.A. received a total of PLN 44.1m, PLN 149.4m and PLN 0.5m as profit distributions from SeCapital S.à r.l., a Luxembourg-based subsidiary InvestCapital Malta Ltd., a subsidiary, and Kancelaria Prawna Raven Krupa&Stańko Sp. k., respectively.

Kancelaria Prawna Raven Krupa&Stańko Sp. k. also paid PLN 66 thousand to its general partners as a profit distribution in 2015.

3.7.2 | Dividend policy

The Company does not have any defined dividend policy at the moment, but does not rule out implementing one in future. The Management Board may propose distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial standing. The Management Board plans to recommend to the General Meeting that a dividend of PLN 2 per share be distributed to the shareholders from the 2015 profit.

3.8 | Auditors

On August 5th 2015, the Company and Ernst and Young Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement for the audit of separate and consolidated financial statements for 2015 and review of separate and consolidated financial statements for H1 2015. The fee for auditing the full-year separate financial statements of the Company, auditing the full-year financial statements of subsidiaries, reviewing

the full-year financial statements of subsidiaries, and auditing the annual consolidated financial statements was set at PLN 481 thousand (2014: PLN 504 thousand); and the fee for other assurance services, including review of the half-year consolidated financial statements – at PLN 0 thousand (2014: PLN 201 thousand). The separate and consolidated financial statements for 2014 were audited by Ernst and Young Spółka z ograniczoną odpowiedzialnością Sp. k.

Table 26. Historical information on dividends paid out to KRUK S.A. shareholders

Profit for the year	2010	2011	2012	2013	2014
Dividend payment date					July 24th 2015
Dividend per share (PLN)	-	-	-	-	1.5
Total dividend (PLNm)	-	-	-	-	25.9

Source: the Company.

Table 27. Calendar of events related to dividend payment in 2015

Date	
February 18th 2015	Management Board's resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 1.5 per share from the net profit earned in the period January 1st–December 31st 2014
March 13th 2015	Supervisory Board's resolution to approve the Management Board's recommendation on the allocation of KRUK S.A.'s net profit for 2014
June 23rd 2015	Annual General Meeting's resolution on the allocation of KRUK S.A.'s 2014 net profit in line with the Management Board's recommendation
July 1st 2015	Dividend record date; the dividend to be paid on 17,291,773 KRUK S.A. shares
July 24th 2015	Dividend payment date

Source: the Company.



Bratislava – quiet city by the Danube



The Group's operations and development directions

- Structure and description of the debt management market
- Legal and regulatory environment
- Geographical markets of the Group's operations
- Key factors with a bearing on the Group's core business and revenue sources
- Strategy overview and business prospects
- Development directions and prospects of the Group
- The Group's investment programme
- Risk factors – internal factors
- Agreements executed by companies of the KRUK Group
- Court, administration and arbitration proceedings
- Material events after December 31st 2015
- Major research and development achievements
- Environmental issues

4 | The group's operations and development directions

4.1 | Structure and description of the debt management market

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

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

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

- management of purchased debt portfolios;
- Credit management services.

The Group's primary markets in 2015 were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany and Italy. The KRUK Group also purchased corporate debt. Additionally, in 2015, the Group started operations on the Spanish market where it performed first valuations of debt portfolios.

The situation in the debt management industry in the countries where the Group operates depends on the prevailing macroeconomic conditions. The key macroeconomic factors which may 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:

- growth in household incomes in real terms translates into consumers' greater willingness to spend and increased demand for credit, which leads to the subsequent increase in banks' lending activity;

- increase in the lending activity translates into a rising overall debt level in the economy and, consequently, into more cases being processed on the non-performing debt management market;
- growing incomes of the population result in a higher loan repayment rate, which improves recoveries from debt portfolios purchased by the Group and, in the subsequent periods, reduces the number of collection cases sold or outsourced to debt collection agencies, unless the effect is compensated by an increase in the overall debt level in the economy.

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

- deteriorating loan repayment rates in the economy translate into a greater number of cases being processed on the non-performing debt management market; increase in the number of outsourced credit management cases follows with a lag of several months, whereas an increase in the stream of debt coming up for sale follows the trend up to a few years later;
- reduction of lending activity by banks translates into a lower number of new debtors in the banking sector;
- growing unemployment rate and a decrease in people's incomes is followed by deteriorating loan repayment rates, and thus may adversely impact the recoverability of debt portfolios held by the Group;
- any increase or decrease in the exchange rate of the currency in which debts are denominated and repaid in foreign markets may increase or decrease, 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 supply of new debt portfolios and demand for debt collection services provided by the Group is banks' interest in outsourcing these to debt collection agencies, defined as the share of debt sold or outsourced for collection to specialised service providers, in the overall volume of non-performing debts.

The Group's clients, on the Polish and foreign markets, adopt a variety of debt management strategies. The Group is exposed to the risk that their interest in outsourcing debt collection or selling receivables will be reduced, resulting in an increase in the volume and value of debts collected by creditors using their own resources. Such lesser interest in outsourcing debt collection would suppress demand for external debt collection services, such as those rendered by the

KRUK Group, and reduce the supply of debt portfolios available for purchase, thus adversely affecting the Group's revenue.

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

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

4.1.1 | Poland

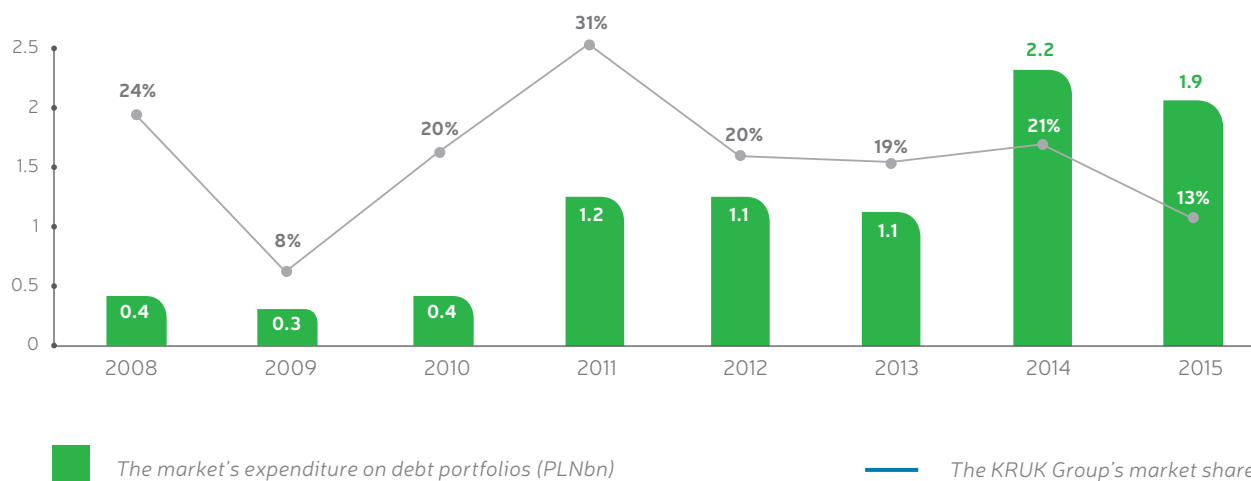
According to the Group's estimates, the nominal value of debt outsourced for management in Poland in 2015 was PLN 25.0bn (2014: PLN 24.3bn). This comprised two segments:

- the debt purchase segment – portfolios with a total nominal value of PLN 16.0bn (up 5% from PLN 15.3bn in 2014, chiefly on the back of continued growth of the consumer segment, as well as purchase of several large mortgage-backed portfolios);
- the credit management segment – cases with a nominal value of PLN 9.0bn (2014: PLN 9.0bn).

Debt purchase market

In 2015, the nominal value of purchased debt portfolios totalled PLN 16.0bn, with unsecured retail debt as the largest item at PLN 12.0bn, up from PLN 11.7bn in 2014. The supply of mortgage-backed debt portfolios was valued at PLN 2.0bn. Transactions in this segment achieved a significant scale in 2014, when PLN 1.7bn of such assets were offered for sale in Poland,

Chart 1. Total value of the market's expenditure on debt portfolios in Poland (PLNbn) and the Group's estimated market share



Source: the Group's estimates.

the majority of which were purchased by the KRUK Group. In the corporate debt segment, the nominal value of purchased debt portfolios was PLN 2.1bn in 2015, up from PLN 2.0bn in 2014.

The Group's investments in debt portfolios in Poland totalled PLN 258m, relative to PLN 456m in 2014. In 2015, the Group's share in the debt portfolio purchase market was 13%, compared with 21% a year earlier. A majority of the Group's expenditure incurred in Poland was spent on the purchase of unsecured retail debt portfolios.

Credit management

The nominal value of cases outsourced to credit managers in 2015 stood at PLN 9.0bn and was flat on the 2014 figure. In 2015, banks continued to be the largest client group in the credit management segment.

The Group estimates that in 2015 it was the leader of the Polish credit management market, with a 40% share in the nominal value of debts accepted for collection. The Group focused chiefly on the financial services market, in particular non-performing bank debts.

Competitive environment in Poland

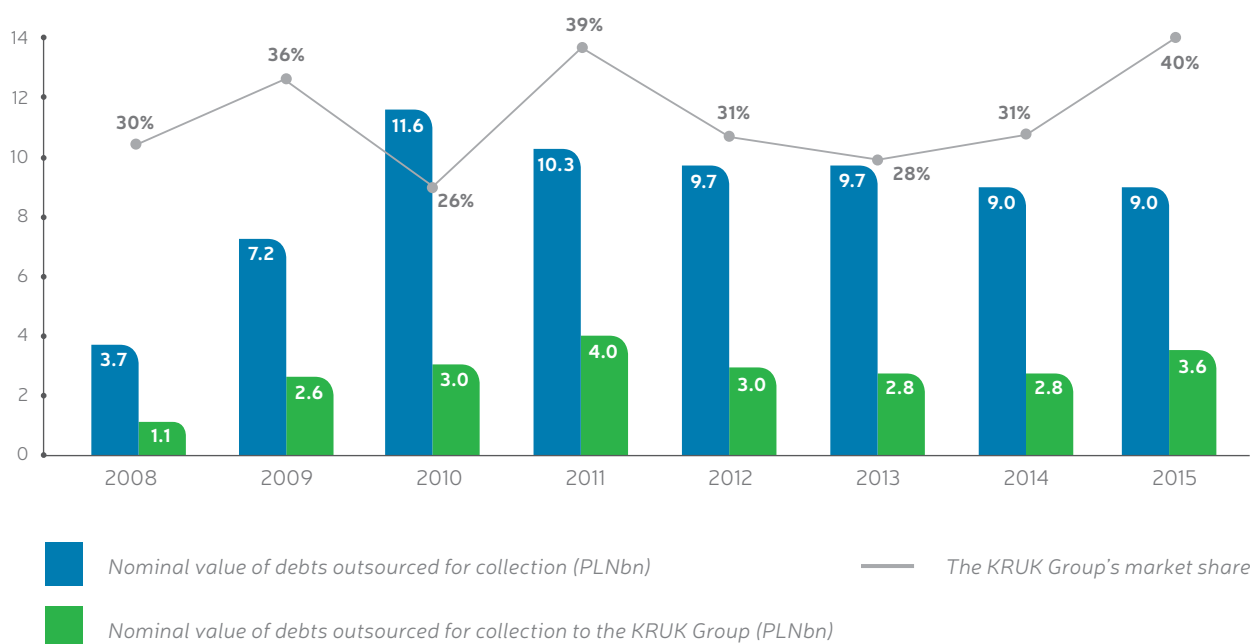
The debt management industry in Poland is characterised by relatively high competition, whether in the credit management or in the debt purchase segment. Both strategic investors (debt management companies) and financial investors (Polish and foreign investment funds) are active on the market.

The Group's leading position on the Polish credit management market in 2015 was confirmed by the industry ranking published by the *Gazeta Giełdy Parkiet* daily. In 2015, the total nominal value of debts accepted for collection or purchased by the KRUK Group in Poland reached PLN 5.7bn, giving it the top position among debt management companies that agreed to disclose their data.

Table 28 includes the entities which provided *Gazeta Giełdy Parkiet* with data on the value of debts purchased and accepted for management on the Polish market in 2014 and 2015.

Taking into account smaller operators and foreign debt management agencies which were not included in the *Gazeta Giełdy Parkiet*'s ranking, the KRUK Group estimates the nominal value of the debt purchase market in Poland at PLN 16.0bn, and of the credit management market at about PLN 19.0bn in 2015.

Chart 2. Nominal value of debts outsourced for collection to the KRUK Group in Poland, and the Group's market share (PLNbn)



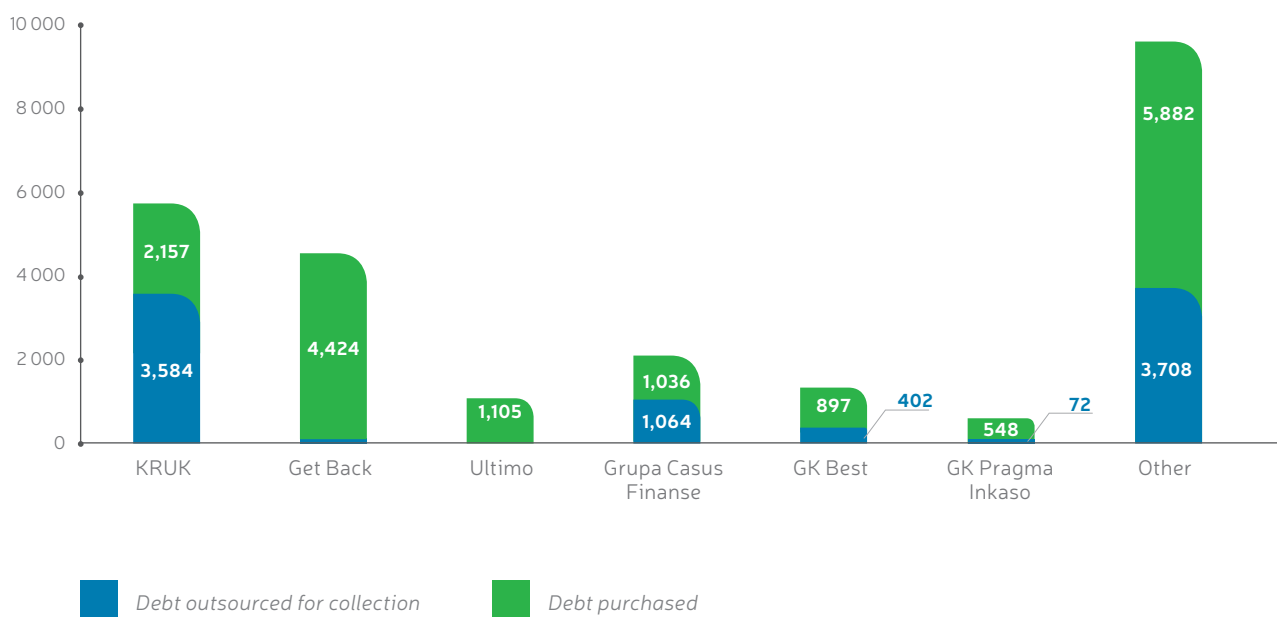
Source: the Group's estimates.

Table 28. Structure of the debt management market by market shares of debt collection agencies, based on the value of cases processed in Poland in 2015 (PLNm)

	Total		Debt purchased		Debt outsourced for collection	
	2015	2014	2015	2014	2015	2014
KRUK	5,741	5,297	2,157	2,539	3,584	2,758
GetBack	4,574	3,750	4,424	3,650	150	100
Ultimo	1,105	1,204	1,105	1,204	0	0
Grupa Casus Finanse	2,100	1,908	1,036	456	1,064	1,452
GK Best	1,299	928	897	625	402	303
GK Pragma Inkaso	620	362	548	244	72	117
DTP	810	702	291	427	519	275
GK Vindexus	287	126	287	126	0	0
BVT	52	51	52	51	0	0
Kredyt Inkaso	1,560	1,165	36	266	1,524	900
Alektum Inkasso	285	211	19	14	266	197
EGB Investments	280	636	2	269	278	367
Kaczmarek Inkasso	1,941	1,553	0	0	1,941	1,553
TOTAL	20,655	17,894	10,853	9,872	9,801	8,023

Source: Gazeta Giełdy Parkiet, February 1st 2016.

Chart 3. The Group versus competitors in Poland in 2015



Source: In-house analysis based on data from Gazeta Giełdy Parkiet of February 1st 2016, and own estimates of the size of the Polish debt collection market.

4.1.2 | Foreign markets

4.1.2.1 | Romania

According to the Group's estimates, in 2015 the nominal value of debt sold or outsourced for collection by banks and other entities on the Romanian market totalled PLN 8.7bn (2014: PLN 13.8bn), of which:

- the nominal value of debt portfolios sold was PLN 4.4bn, compared with PLN 9.1bn in 2014;
- the nominal value of debt portfolios outsourced for management was PLN 4.2bn, compared with PLN 4.6bn in 2014.

The decrease in supply of debt portfolios on the Romanian market was attributable to large transactions of sale of corporate and mortgage-backed debt executed in 2014, with a total nominal value of PLN 5.1bn and PLN 1.8bn, respectively. The Romanian market of mortgage-backed debt may expand substantially in the coming years, following the growth pattern previously seen in Poland. The Group has secured a relevant licence and is ready to purchase mortgage-backed debt on the Romanian market.

In 2015, the Group's expenditure on Romanian debt portfolios amounted to PLN 158m (most of which was spent on retail portfolios), compared with PLN 95m in 2014. The 2015 expenditure gave the Group a 37% share in the debt purchase market. In the coming

years, the Group intends to pursue an even more active approach on mortgage-backed and corporate debt markets.

In 2015, in Romania, the Group accepted for management debts with a nominal value of PLN 360m, compared with PLN 350m in 2014.

The Romanian debt management market is less fragmented than the Polish market, even though the number of entities interested in purchasing debt portfolios is growing.

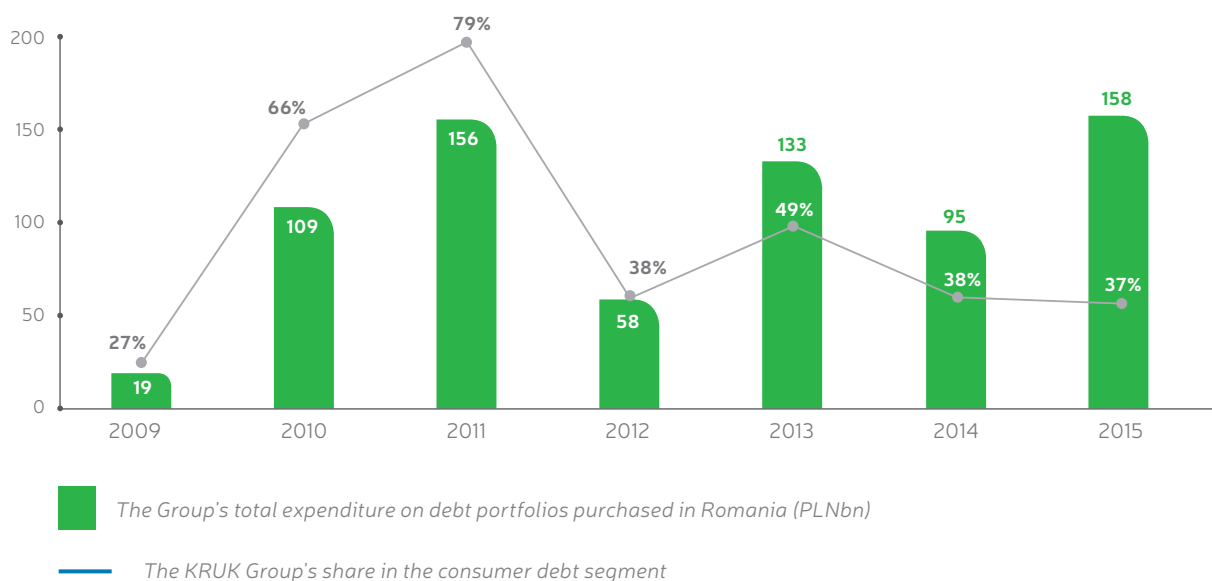
4.1.2.2 | The Czech Republic and Slovakia

According to the Company's estimates, the value of the market for consumer debt purchases in the Czech Republic and Slovakia in 2015 was PLN 2.6bn in nominal terms, whereas the total expenditure on debt portfolios in this segment totalled PLN 0.5bn.

In 2015, the KRUK Group spent a total of PLN 41m on consumer debt portfolios on both markets, compared with PLN 18m in 2014. Thus, the Group achieved an approximately 8% share in the debt purchase market, estimated based on the value of the Group's expenditure.

The credit management sector in the Czech Republic and Slovakia is highly fragmented among a large number of domestic and foreign companies.

Chart 4. Expenditure on consumer debt portfolios purchased by the Group on the Romanian market (PLNm), and the market share in 2009–2015



Source: the Group's estimates.

4.1.2.3 | Germany

In August 2015, the Group purchased its first debt portfolios on the German market. The German debt purchase market is not transparent. The aggregate value of loans advanced by the German banking sector is EUR 2.4bn, of which consumer loans represent over EUR 200bn. The German debt market is several times larger than the Polish one, but it is also less transparent. The Group estimates the entire market's expenditure on consumer debt portfolios at several hundred million euro a year. KRUK's main competitors in the German market are Creditreform, EOS, GFKL, Lindorff, Intrum Justitia, PRA Group, Hoist and Arvato.

4.1.2.4 | Italy

In December 2015, the Group purchased from Unione di Banche Italiane its first portfolio on the Italian market, with a nominal value of EUR 82m for EUR 4.6m. Despite its relatively recent character, the country's unsecured retail debt market is already one of Europe's largest in terms of nominal value. The Group estimates that the current supply of unsecured debt on the Italian market is, in terms of nominal value, EUR 4–5bn annually. The Italian market is a competitive one, with portfolios purchased both by debt management companies and financial investors.

4.1.2.5 | Spain

In 2015, the Group established KRUK España S.L. and performed first valuations of debt portfolios in Spain. After the United Kingdom's, the country's unsecured retail debt market is Europe's second largest in terms of nominal value. The Group estimates that the supply of unsecured debt portfolios on the Spanish market is ca. EUR 8bn. The portfolios are purchased mainly by financial investors, who cooperate with local providers of debt portfolio management services.

4.2 | 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 judgements 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 comply with the applicable laws and regulations on competition and consumer protection. Given the nature of its operations, the Group is exposed to the risk that the President of the Polish Office of Competition and Consumer Protection (UOKiK), or another competent consumer protection authority (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.

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

The nature of the Group's operations involves extensive personal data processing as part of the Group's everyday business. Personal data processing by the Group complies with the laws and regulations on personal data protection in effect in the countries where the Group is present. However, 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 investment fund companies managing such funds, management of the funds' securitised debt, as well as operations involving the provision of detective services, are subject to special regulations. 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.

Tax systems in the countries where the Group conducts business are subject to changes. Certain tax laws are imprecise and there is no consistent and clear interpretation or practice of their application by tax authorities. Due to differing tax law interpretations, the tax risk in Poland and the other countries where the Group is present is greater than in the legal systems on developed markets. No assurance can be given by the Company that tax authorities will not establish different tax interpretations, being unfavourable to the Group, which may have a material adverse effect on the Group's operations, financial standing or performance. Furthermore, as the Group is active in different jurisdictions, double-tax treaties also have an effect on its business.

4.2.1 | **Securitisation funds**

Operations of the Group's securitisation fund (Prokura 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 (Dz.U. of 2011, No. 234, item 1389), the PFSA no longer has the authority to grant authorisations to establish closed-end investment funds issuing only investment certificates, which according to such fund's articles of association will not be offered in a public offering, admitted to trading on a regulated market or introduced to trading in an alternative trading system. Such closed-end investment funds are formed upon their 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.

By virtue of the decision of May 8th 2012, the Polish Financial Supervision Authority authorised KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to conduct business activities consisting in creation and management of investment funds, including intermediation in the sale and redemption of investment fund units, representation of investment funds in dealings with third parties, and management of collective securities portfolios. On December 7th 2012, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. took over the management of the KRUK Group's securitisation funds. On April 1st, KRUK S.A. and KRUK TFI S.A. entered into an agreement on management of Prokura NS FIZ's securitised debt. The agreement provides for, inter alia, debt purchase and sale on behalf of the fund, preparation of projects and analyses concerning the fund's investments, preparation of analyses concerning efficient day-to-day management of the fund's portfolio, debt collection and administration of the fund's claims, and valuation of claims representing the fund's assets.

4.2.2 | **Bank outsourcing**

Pursuant to the amended Banking Law (Dz.U. 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.

4.2.3 | **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

(Dz.U. 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. On July 1st 2015, an amendment to the Polish Criminal Code took effect, providing that personal data of parents evading child support payments, which ultimately must be made from the state budget, will be reported to all licensed credit reference agencies in Poland.

4.2.4 | 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 (UOKiK), with respect to competition and consumer rights protection.
- Inspector General for the Protection of Personal Data, with respect to personal data processing and protection.

4.2.5 | Personal data protection

Due to the large scale of personal data processing in the Group's day-to-day operations, personal data protection regulations have special importance for the Group's activities. Personal data processing must take place in compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against disclosure to unauthorised individuals. In addition, individuals whose data are processed must have the right to access and correct such data.

ERIF's operations which involve making available credit information are also governed by the Act on Availability of Business Information. Furthermore, relevant provisions of the Banking Law concerning banking secrecy apply to the servicing of bank debts. Activities relating to management of securitised debt are subject to regulations on professional secrecy stipulated in the Act on Investment Funds.

4.2.6 | Other changes in laws and regulations applicable to the Group's business

The following are examples of changes in laws and regulations applicable to the Group companies' business in 2015:

- On January 1st 2015, an act of August 29th 2014 amending, inter alia, the Bankruptcy and Restructuring Law came into force; the new regulations

improved the availability of consumer bankruptcy mechanisms for debtors.

- On April 9th 2015, an Act Amending the Act on Bailiffs and Debt Enforcement was passed, restricting the creditor's right to select a court enforcement officer. The Act came into force as of January 1st 2016.
- On October 10th, the Act on Complaint Handling by Financial Market Participants and on the Finance Ombudsman of August 5th 2015 came into force (the effective date for the Act as a whole was January 1st 2016).
- On October 17th 2015, an amendment to the Polish Civil Code came into force, limiting inheritors' liability for inheritance debt if the inheritor has not made a declaration of acceptance or rejection of inheritance.
- On November 27th, an Act Amending the Banking Law and Certain Other Acts of September 25th 2015 came into force, removing banks' right to issue bank enforcement orders and define debt restructuring rules for borrowers.
- On January 1st 2016, the Restructuring Law of May 15th 2015 came into force.

Another noteworthy fact was the issue by the Minister of Finance of a general tax ruling of June 9th 2015 (PT1.050.1.2015.LJU.19), stating that activities of court enforcement officers should be deemed provision of services for consideration and are subject to VAT. Concurrently, the exemption referred to in Art. 15.6 of the VAT Act does not apply to such activities, therefore they are subject to taxation in accordance with rules of general application.

KRUK S.A. has brought its operations into compliance with the above regulations. However, as at the date of this report, the regulations' overall effect on the Group's operations cannot be reliably quantified. It has been preliminarily assumed that they will be of no significant influence.

4.3 | Geographical markets of the Group's operations

The Group operates on seven geographical markets, which it classifies as follows:

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

On all those markets, in 2015 the Group purchased 86 debt portfolios with a total nominal value of PLN 4.9bn, incurring expenditure of PLN 489m.

For more information on the Group's geographical markets, see section "Structure and description of the debt management market".

4.4 | Key factors with a bearing on the Group's core business and revenue sources

The Group's core business comprises two operating segments:

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

The Group's activities are focused 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. Moreover, a market parameter that has a material bearing on the Group's revenue is clients' interest in outsourcing debt collection, i.e. whether they decide to use in-house debt collection or transfer debt collection to specialised external firms, either under outsourcing arrangements or by selling the debt. The KRUK Group operates on the Polish and foreign markets. Since 2007 it has been present on the Romanian market, in 2011 it launched operations in the Czech Republic and Slovakia, in 2014 – in Germany, and in 2015 – in Italy and Spain. A detailed description of key external factors affecting the Group's operations is presented in section 4.1 "Structure and description of the debt management market".

4.5 | Strategy overview and business prospects

4.5.1 | Amicable settlement strategy for debt collection

Since mid-2008, the Group has consistently pursued a strategy focused on amicable debt settlement with debtors. Under the strategy, debtors are treated as consumers who are unable to pay their debts for reasons beyond their control, acknowledge that obligations once incurred must be settled, and are willing to do so. As a result, the Group gears its debt collection efforts to achieving an optimum solution given the debtor's current financial capabilities (e.g. through instalment-based repayments). This strategy has maximised the efficiency of collection efforts and has led to regular payment streams from debtors. The implementation of the strategy was supported by a media campaign targeted at debtors, which contributed to the Group's positive image and made it the most recognisable brand on the Polish and Romanian debt management markets. In 2015, 63% of the Group's recoveries in Poland and 72% of its recoveries on the foreign markets were based on out-of-court settlements.

The KRUK Group is also among most recognisable credit management companies in the Czech Republic and Slovakia, as revealed in Millward Brown's survey in those countries.

Table 29. KRUK Group's investments in 2015 on each geographical market of its operations

	Nominal value (PLNm)	Expenditure (PLNm)
Poland	2,157	258
Romania	1,853	158
Other*	915	73
Total	4,926	489

Source: the Company.

* Czech Republic, Slovakia, Germany, Italy, Spain – a Group company operates on the Spanish market, but in 2015 it made no portfolio investments.

4.5.2 | Comprehensive and innovative product and service offering

The primary area of the Group's business is consumer debt management. The key operating segments are credit management services and debt portfolio purchases.

Credit management services

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

- are tailored to our trading partner's preferences and needs;
- comply with the highest standards and best practices;
- comply with the applicable legal regulations.

Purchase and management of debt portfolios for the Group's own account (purchased debt portfolios)

The KRUK Group's innovative offering in Poland includes the services of a credit reference agency (ERIF Debtor Register) and the Group's own legal office (Raven Law Firm). This enables the Group to provide comprehensive loss prevention and debt collection

services, tailored to the client's needs and debt management policy.

4.5.2.1 | Loss prevention services

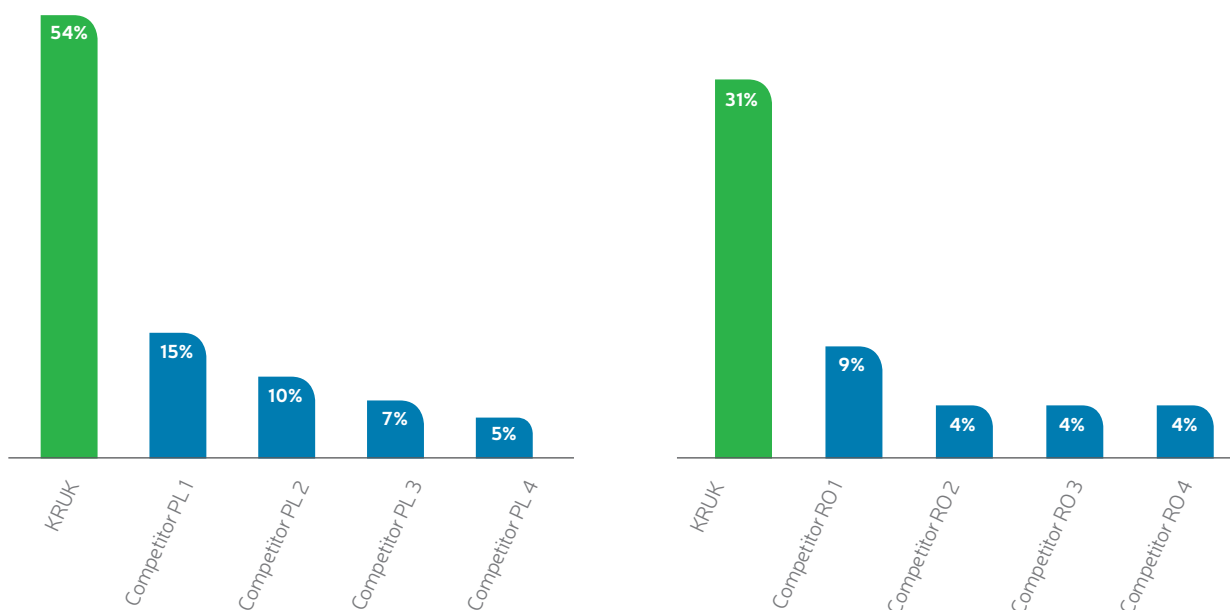
Provision of payment reports by ERIF

The ERIF Debtor Register is a platform for collecting, processing and providing information on liabilities incurred by individuals and businesses. The functionalities of the ERIF Debtor Register include: creditworthiness checks on consumers and businesses (report-based positive and negative information), entering information on delinquent payers into the database, and remote verification of document authenticity.

Detective investigation

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

Chart 5. Awareness of the KRUK brand versus competitors in Poland and Romania in 2015



* Total awareness (name and logo).

Source: Group-commissioned surveys: PBS in Poland and TNS in Romania, December 2015.

4.5.2.2 | Collection services

Collection monitoring

Monitoring of amounts due from debtors is a very prompt and early response to payment irregularities and payment delays (even by a couple of days). At this very early stage of managing debts, it is of paramount importance to outsource debt monitoring to a partner which has the relevant know-how and ready-to-use solutions. The process is based on the Contact Center technology, facilitating regular monitoring, tailored to the Client's needs and profile. The main objective of contacts with a debtor is to restore regular repayments. Therefore, actions undertaken in the course of debt monitoring are primarily based on telephone contacts. It is crucial here that the probability of reaching a debtor and talking to them is close to 100% at this stage.

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. Amicable collection encompasses a very broad range of activities. Its processes are differentiated and personalised. They use numerous tools chosen according to the specific nature of the client's cases and the client's needs. Accordingly, each debt portfolio accepted for management is analysed, and relevant know-how, knowledge of the industry, and selection of an appropriate collection process for a given case type facilitate effective credit management and accurate planning of future transactions. The Group conducts restructuring processes and executes agreements for debt repayment in instalments. In its amicable collection activity, the Group puts emphasis on reaching the debtor, establishing contact with them, and agreeing on feasible options of debt repayment.

Field consultants

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

Repossession of collateralised assets

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

Administration of mortgage-backed debt cases

The process used by the Group with respect to mortgage-backed debts includes all tools available for individual services. The main assumption is a case-by-case approach and precise adaptation of the process to the nature of mortgage debt (high balances, security provided in the form of mortgage over real estate).

The process has been designed based on non-standard solutions, where KRUK S.A.'s advisors act in a double role of an advisor and the creditor. For this service, the main assumption is individual treatment of each case and providing support in the amicable phase of the collection process on the basis of received authorisations. After a case is accepted for collection, it undergoes a detailed review in terms of its status, the financial situation of the debtor, and quality of the security. Then, depending on the findings, steps are undertaken to restore regular repayments, arrange credit restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate).

In the course of collection of mortgage-backed debts, the Group conducts proceedings also in the court and enforcement phase.

ERIF Debtor Register's debt collection support tools – entering debtors on the Debtors List

This category of ERIF tools serves to improve the effectiveness of debt management. The tools may be applied both at the early stage of debt monitoring and after the implemented collection efforts prove ineffective.

Services offered by the ERIF Debtor Register include entering new debtors into the Register and sending debtors notices informing them that their data has become publicly available through the ERIF Debtor Register. Using the credit reference agency and the ERIF brand in the proceedings helps improve the effectiveness of debt collection.

The ERIF Debtor Register is the only credit reference agency in Poland which subjects its database to regular reviews by an independent audit and advisory firm. The review is performed every three months. As at January 4th 2016, the Debtor Register contained 4 million records, 75% more than the year before.

Court and enforcement proceedings

Court and enforcement proceedings are conducted by Kancelaria Prawna RAVEN, a law firm being a member the KRUK Group. Kancelaria Prawna RAVEN represents the Group and its clients in court proceedings initiated to obtain a final court judgement with an enforcement clause, as well as during enforcement procedures.

4.5.2.3 | Other services

e-KRUK

e-KRUK is an interactive multimedia service supporting the credit management process, available through web browsers. It is one of just few Internet services of this type available on the market; it has been created to meet the needs of debtors and facilitate their getting out of debt.

e-KRUK offers numerous functionalities to clients:

- reviewing the list of debts to a given creditor;
- checking the phase of the debt management process;
- learning about the cost of court collection and bailiff collection;
- entering into a settlement agreement on convenient terms;
- convenient direct link to the bank's website for debt repayment;
- possibility of arranging contact with a negotiator at a convenient time, possibility of updating quickly the contact data.

The Pożyczka Novum loan service

As part of the Novum consumer finance business line, the Group grants short-term cash loans of up to PLN 10,000, for periods from 3 to 30 months, to persons who have repaid or will soon repay their debts to the Group. The lending service is also intended to diversify the Group's revenue sources. Revenue from the NOVUM business line reported by the Group in 2015 was PLN 10.1m, up 38% year on year, as the Group advanced more than 9 thousand NOVUM cash loans with a net value of PLN 29m.

VERIF Service

VERIF is a unique combination of verification, prevention and debt recovery services in a single package addressed to small and medium enterprises as well as sole traders.

4.5.3 | Marketing activities and image building

4.5.3.1 | The Group's image-building activities

In 2015, the KRUK Group's marketing and image building activities concentrated on its core target groups, i.e. customers (debtors) and consumers, strategic partners, investors, and representatives of the media.

As always, the main focus of all consumer-oriented communication and activities was on financial education and creating a positive image of the company and its employees. In Poland, Romania, the Czech Republic, Slovakia and Germany, the Group's press releases, communications, information materials and advertising campaigns aimed to present KRUK as a reliable and trustworthy partner, helping those in need get out of financial difficulties.

The Internet was an important channel for our educational activities and for communicating with consumers and debtors. Using dedicated websites and social media, we were able to reach a wide group of customers. In 2015, we extended our Internet-based initiatives to include the Romanian market, where we launched "Calculat si linistit", a Facebook fanpage – an equivalent of "Domowy Plan Finansowy" run by KRUK S.A. in Poland. The main focus of the fanpage is debt, household budget management and financial education. Similar initiatives were launched on Google+, Instagram and Pinterest.

The World Consumer Rights Day (March 15th) in Poland was an important event for consumers, who were offered access to ERIF's Debtor Register at a discount price and could verify their credit rating.

The Good Credit Record Day, celebrated for the first time on May 21st 2015, was yet another interesting project. Initiated by Rejestr Dłużników ERIF BIG S.A., it aims to familiarise consumers with the concept of good credit record and the benefits it brings, and to encourage them to be honest and build a good credit history. This is a global trend – having a positive credit history is increasingly important, as it is an essential aspect in verifying the creditworthiness of consumers by companies and service providers.

In Q1 2015, we officially launched the KRUK Deutschland GmbH campaign. During one-on-one

meetings with journalists, the Management Board of KRUK S.A. and KRUK Deutschland GmbH presented the KRUK Group's unique amicable settlement strategy as well as German versions of our commercials to give a thorough overview of our business model. KRUK met with journalists from major financial newspapers in Germany, including Handelsblatt, Banken+Partner and Frankfurter Allgemeine Zeitung. Based on a social survey, the campaign continued in the second quarter, putting KRUK in Germany's major magazines and websites.

In the first half of the year, we launched a PR campaign in Romania, which was designed for debtors to "regain their self-confidence". During a press conference, Aurora Liiceanu, a renowned and highly-regarded social psychologist, spoke about the emotional aspects of being in debt. Marius Manole, an actor, performed a monodrama showing the various phases of coping with debt, from disbelief after receiving the letter, through anger, to regaining calm and self-control and, finally, the decision to call the creditor. His performance portrayed the emotions that accompany a debtor contacting a debt collection agency.

In Poland, meetings with journalists were organised in six cities with the highest proportion of debtors whose cases were handled by the KRUK Group, where those gathered could learn about the debtors' problems and causes of their financial situation. The meetings resulted from a survey carried out by the KRUK Group into Poles' spending habits and household budgets.

The initiatives in the first half of the year culminated with the publication of the first issue of the "Financial Courier" educational gazette, which had been created to communicate with debtors. Delivered to many of the KRUK Group's customers, the publication offered advice on how to save up money for debt repayment and on how to best manage one's household budget.

The third quarter of 2015 marked a special moment in the history of the KRUK Group's communication activities as Czech and Slovak TV channels showed advertising spots presenting the KRUK Group's amicable settlement strategy for the first time. KRUK Česká a Slovenská republika s.r.o. took an important step and broke new ground on the Czech and Slovak markets, presenting debt collection in a completely different light than it had been the case in the media so far. Just like in Poland and Romania, the campaign's primary function was to encourage debtors to contact KRUK. It also aimed to communicate that even the most difficult situations have a solution. Czech and Slovak TV stations broadcast spots showing the stories of three families which got in debt in different ways, but were able to get out of their financial problems gradually,

regain peace and hope for a better future by signing a settlement and repaying their debts in instalments.

As part of our autumn campaign, we republished the Household Budget Planner and the Debtor's Handbook. We also released further issues of the Financial Courier and an educational comic book addressed to children. All of the materials were available free of charge on the Polish market, and some of them also on the Czech and Slovak markets.

Since September and throughout the fourth quarter, the educational materials represented an important element of our initiatives at social aid centres, where they were made available free of charge to all visitors. It was a vital component of the KRUK Group's educational campaign in Poland.

In Romania, further meetings with journalists were organised as part of the PR campaign, with a view to enabling debtors to "regain their self-confidence". Experts were invited to a press conference in Timișoara to talk about the emotions associated with debt. Those gathered could also see a monodrama presenting the stages of falling in and coping with debt.



As always, the Day without Debts, celebrated on November 17th, was an important event for the KRUK Group. 2015 saw the next edition of the Day without Debts in Poland (seventh edition), Romania (fifth edition), the Czech Republic (fourth edition), and Slovakia (third edition).

The Day without Debts is an initiative of the KRUK Group, in which we encourage debtors to face their financial troubles, providing an impulse to give back even the smallest amounts borrowed from family members and friends, as well as bank credits and other larger debts to creditors. On November 15th and 17th, the KRUK Group organised a variety of educational activities to encourage debtors to contact their creditors and try to fix their financial situation.

In Poland, as part of the Day's celebrations, KRUK consultants and representatives of the Society for Promotion of Financial Education discussed methods of getting out of debt at the Local Labour Office in Gdańsk. At the advice stand, the participants could access the

ERIF Debtor Register and view their records. They also received a bundle of useful materials to help them better manage their household budgets. It was no accident that the venue was located in Gdańsk, which is the first city in Poland to aid its inhabitants in fighting debt, for instance through the Economic Security and Debtors Support Programme initiated in October.

On the same day, November 17th, the KRUK Group and the Debtors Support Association (Stowarzyszenie Program Wsparcia Zadłużonych) organised a conference entitled "Unemployment and debt – an effect or cause? In search of more effective solutions", which was addressed to those whose everyday work involves contacts with people who are in difficult life circumstances brought about by unemployment or are under threat of social exclusion.

In the Czech Republic and Slovakia, advice stands were again set up at railway stations, where advisors from the KRUK Group and a partner non-governmental association gave financial advice to the many interested. The initiative was accompanied by press publications and radio broadcasts.

An international social study commissioned by the KRUK Group was published in the Czech Republic, Romania, Germany and Slovakia as part of the Day without Debts. Entitled "Why some pay their bills regularly while others get into debt?", the study identified traits and behaviours which can make one susceptible to debt. A similar study, but on a larger scale, was conducted in Poland, leading to the publication of "Portrait of Poles in debt".

In Poland, autumn also saw us continue our marketing and operational activities, including product placement in a TV show. Once again, KRUK's amicable settlement strategy was promoted in one of the most popular series in the Polish TV. After "M jak Miłość", "Barwy Szczerścia" and "Ojciec Mateusz", the product appeared in "Na dobre i na złe", where a young doctor struggled with debt and then set his finances and life straight with the help of a KRUK advisor.

The KRUK Group's use of product placement as a method of communicating with customers is still something unique on the market, allowing the KRUK Group to reach millions of viewers (including our current and future customers) and show them how the KRUK Group operates and what they can expect when contacting us. In this way, viewers learn how to behave when in debt and how to get in touch with our advisors. We thus demystify the subject of debt and make people aware that it can happen to anyone, at the same time showing that with KRUK's help getting out of debt is possible and easier than it might appear.

Product placement was only one of the activities pursued as part of the KRUK Group's autumn marketing campaign. The TV show's character of Ola, who provides advice to her life partner Jan, was also featured in letters sent to the KRUK Group's customers. The actress playing Ola (Anna Karczmarczyk) gave an interview in the second issue of the "Financial Courier". The autumn marketing campaign in Poland was also pursued on the Internet and in the press, where advice articles on debt and household budget management, featuring our brand ambassador, were published.

Establishing relations with trading partners and investors is particularly important to our organisation. In all of the countries in which it operates, the KRUK Group promotes and takes an active part in creating best practices for the credit management industry.

In 2015, we participated in and shared our knowledge at several dozen conferences devoted to credit management and best practices in customer service. Our representatives had the opportunity to exchange experiences in almost all of the countries where the KRUK Group carries out its business, as well as during international conferences and events. In Poland, Romania and the Czech Republic, our trading partners could also take part in workshops and debates organised specially for them. Three of them were held in Poland. It was also for the first time that the KRUK Group's conferences were organised in Romania and the Czech Republic. This international experience and knowledge sharing met with a very positive response.

On our new markets, KRUK Deutschland GmbH was one of the key partners in 7. Forderungs- und Risikomanagement Tage, one of the largest credit management conferences in Germany. During the meetings, we acquainted our partners with the KRUK Group's unique business model. The conferences were held in Berlin, Munich, and Frankfurt am Main. In the Czech Republic, we took part in Česko-slovenské fórum inkasního trhu. At the conference, KRUK experts discussed modern methods of communicating with debtors and efficient debt portfolio management. It was also for the first time that we were invited to participate in a panel discussion at one of the largest conferences in the financial sector in Spain.

In 2015, we provided communication support in connection with two bond issues and held a number of meetings with investors. For the purposes of communicating with our partners and investors, we created a new KRUK Group folder containing information on our organisation, offering and strategy.

We are also taking steps to develop new channels for communicating with our trading partners and

investors, which saw us launch the official KRUK S.A. profile on Twitter, where we publish information on the Group and commentaries on key developments in the economy and financial sector.

In March, **KRUK S.A.** was named

Listed Company of the Year

in a ranking organised by the Puls Biznesu daily.

In line with our strategy designed to help those in need, we also pursued a range of CSR initiatives. In 2015, we provided varying degrees of support to a number of associations and non-governmental organisations. In May, for the third time KRUK became the Golden Sponsor of Corporate Run, a charity relay race, where proceeds are used to finance medical treatment for children with disabilities, this time including Wiktoria Urbańska, who suffers from cerebral palsy. The event attracted 3,500 contestants from 200 companies and a crowd of nearly 6,000 spectators. The KRUK Group was represented by over 130 runners. In the Czech Republic, KRUK was the main sponsor of a swimming competition for disabled children. We also partnered with the University of Hradec Králové, where KRUK employees give occasional lectures on debt and general financial knowledge.

In 2015, the KRUK Group received numerous accolades. In March, KRUK S.A. was named Listed Company of the Year in a ranking organised by the Puls Biznesu daily. It is the most prestigious award in Poland, granted to KRUK only four years after its first stock market listing. The Company was recognised by stock-market specialists for its business model and the competence of the Management Board. In the first quarter of the year, KRUK S.A. was awarded the 2014/2015 Business Superbrands title for becoming one of the strongest brands on the Polish market. We received a distinction in the Investor category in the third edition of the Polish Company – International Champion competition organised by PwC and the Puls Biznesu daily newspaper. KRUK S.A. was awarded the Consumer's Golden Laurel. Our achievements also include a marketing award. The International Business Awards jury recognised this year's ERIF Debtor Register online campaign, rewarding KRUK with a bronze Stevie Award in the "Marketing Campaign of the Year – Financial Products & Services" category. Mr Piotr

Krupa was named Person of the Financial Market 2015 by readers of the Gazeta Giełdy Parkiet daily.

Other important events in 2015 also included KRUK Deutschland GmbH's joining three most important associations of credit management companies in Germany: Bund deutscher Inkassounternehmen, Bundesvereinigung Kreditankauf und Servicing, and Bundesverband Credit Management. It is a vital step in the development of KRUK's German business.

In 2015, KRUK Česká a Slovenská republika s.r.o. joined Asociácia slovenských inkasných spoločností (ASINS). ASINS is a legal organisation in Slovakia, established to protect the image of credit management companies. It represents and protects the interests of its members, as well as ensures compliance with legal regulations and strict ethical standards.

4.6 | Development directions and prospects of the Group

4.6.1 | Contents of the strategy announced in 2015

The key strategic objective of the KRUK Group for 2015–2019 is to achieve the position of one of the three leading debt management companies in Europe in terms of net profit.

The Group plans to achieve this goal through:

- Product range development and growth in geographical regions.
- Improvement of efficiency.
- Improvement of research and analyses.

Product range development and growth in geographical regions

In 2015–2019, the Group plans to expand its existing business lines and develop new ones on the existing markets as well as on new foreign markets. With respect to the product range, the Group plans to continue purchasing consumer, mortgage, and corporate debt portfolios, providing debt management services, and developing the consumer loan business and credit information services. The Group plans to expand into large consumer markets of debt management in Europe, and is considering entering the markets of Spain, Italy, Portugal, and the UK in the time horizon of its strategy. The Group's growth potential across products and geographical regions is presented in Figure 3.

Higher efficiency

Steps taken to enhance the Group's efficiency cover the entire organisation, with particular focus on economies of scale and more effective management of the purchased debt portfolio. Based on nominal value at the time of acquisition, the purchased debt portfolio was PLN 26.6bn as at the end of 2015, and the number of cases exceeded 3.7 million. The KRUK Group's objective is to become more effective in getting through to the debtors from this portfolio (as well as portfolios to be purchased in the future) and thus improve its cash recovery rates, which will provide the potential for higher profits.

Particular projects related to the improvement of efficiency include primarily:

- development of process management;
- development of a network of field advisers;
- improvement of cost efficiency, including through the development of IT systems and process automation;
- enhancing marketing communication;

- enhancing the effectiveness of debt collection processes through more effective use of credit information – both negative and positive.

Improvement of research and analyses

The Group plans to further improve its management competence based on data analysis and research. This objective will be achieved mainly by gaining greater experience in valuation and management of debt portfolios based on the cases acquired in the past (over 3 million) and debts outsourced for collection each year (1.0m per year on average). By the end of 2015, the Group purchased 456 debt portfolios and performed over 2,800 debt portfolio valuations. Moreover, the Group will develop its internal operational analyses enhancing the effectiveness of debt management processes, and (social and consumer) marketing research to better understand the needs of debtors, enhance debtor management processes and facilitate contact and communication with debtors.

Figure 3. KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions

Current business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Italy	Spain	Portugal	...
Debt portfolio purchases	Consumer	✓	✓	✓	✓	✓	✓			
	Mortgage	✓	✓							
	Corporate	✓	✓							
Debt collection outsourcing		✓	✓	✓	✓					
Consumer loans		✓								
Credit information		✓								



– As at the announcement of the 2015–2019 strategy



– Implementation of growth strategy by product and geographical region

Source: the Company.

The Group has launched projects designed to:

- improve the valuation of debt portfolios;
- improve credit scoring and forecasting models supporting operating processes.

New services in the financial sector in Poland

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

4.6.2 | Strategy implementation progress

Strategy implementation progress is presented in Table 30.

4.7 | The Group's investment programme

4.7.1 | Capital expenditure

In 2015, the main items of capital expenditure made by the Group included PLN 3.0m spent on new vehicles (including under finance lease agreements) and PLN 2.8m spent on plant and equipment. The Group also made material investments of PLN 5.2m in licences and computer software, including PLN 4.1m invested in proprietary software.

4.7.2 | Investments within the Group

In 2015, KRUK increased and reduced the share capital of its subsidiaries:

- SeCapital S.à r.l. – share capital increase by a total of PLN 51.3m.
- SeCapital S.à r.l. – share capital reduction by a total of PLN 112.7m.
- InvestCapital Malta Ltd. – share capital increase by a total of PLN 387.2m.
- KRUK România SRL of Bucharest – cancelling liabilities under loans (including interest) for a total of PLN 21.4m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015), and trade liabilities totalling PLN 1.74m (translated at the exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015).
- KRUK Česká a Slovenská republika s.r.o. of Hradec Králové – cancelling liabilities under loans (including interest) for a total of PLN 17.15m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015), and trade liabilities totalling PLN 1.91m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015).
- KRUK Deutschland GmbH – additional contributions to statutory reserve funds totalling PLN 15.3m (translated at the mid exchange rate quoted by the NBP for the contribution date).
- KRUK Italia S.r.l – additional contributions to statutory reserve funds totalling PLN 52 thousand (translated at the mid exchange rate quoted by the NBP for the contribution date).

Table 30. Strategy implementation in 2015

Strategic objectives	Key initiatives implemented in 2015
Product range development and growth in geographical regions	<ul style="list-style-type: none"> • purchase of the first debt portfolio on the German market • establishment of operations and purchase of the first debt portfolio on the Italian market • establishment of operations in Spain • opening of the secondary market of debt management through an investment agreement executed with the P.R.E.S.C.O. Group for the purchase of its Polish debt portfolio
Improvement of efficiency	<ul style="list-style-type: none"> • improvement of control and audit models • Lean Six Sigma optimisation projects • projects relating to the employee suggestion system • improvement of the systematic approach to risk
Improvement of research and analyses	<ul style="list-style-type: none"> • improvement of standards for building scoring models • improvement of data warehouses • developing a reporting tool for data visualisation

Source: the Company.

- ItaCapital S.r.l – additional contributions to statutory reserve funds totalling PLN 0.2m (translated at the mid exchange rate quoted by the NBP for the contribution date).
- Novum Finance Sp. z o.o. of Wrocław repaid PLN 5.3m of the total of PLN 7.2m paid by KRUK as additional contributions to the company's equity pursuant to resolutions of April 27th and May 30th 2012. The repayment was made in accordance with resolutions of June 26th 2013 and January 29th 2014. On March 17th 2014, liquidation proceedings were opened for Novum Finance Sp. z o.o. As at December 31st 2015, additional contributions to equity disclosed by Novum Finance Sp. z o.o. w likwidacji (in liquidation) stood at PLN 1.9m.

In 2015, InvestCapital Malta Ltd., a subsidiary, increased the share capital of SeCapital S.à r.l. by a total of PLN 185.1m.

Establishment of new foreign companies

On November 13th 2015, KRUK S.A. subscribed for 100% of shares in KRUK Italia S.r.l of Milan, with a total par value of EUR 50 thousand. On November 17th 2015, the Articles of Association of KRUK España S.L. of Madrid were executed; KRUK S.A. holds 100% of shares in that company, with a total par value of EUR 50 thousand. The companies' principal business activities consist in credit management services, management of debt portfolios purchased by the KRUK Group in European countries, including in particular Italy and Spain, as well as debt trading.

New companies in KRUK Group:

- KRUK Italia S.r.l
- ItaCapital S.r.l
- KRUK España S.L.
- InvestCapital Malta Ltd

In 2015, ItaCapital S.r.l of Milan, a special purpose securitisation vehicle, was also established. On November 13th 2015, KRUK S.A. subscribed for 100% of shares in that company, with a total par value of EUR 10 thousand. The company's principal business activities primarily consist in investing in debt or debt-backed assets.

On December 10th 2015, the Articles of Association of ProsperoCapital S.à r.l. of Luxembourg were executed before a notary public. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.

4.7.3 Investment programme financing sources

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

4.7.4 Assessment of the feasibility of investment plans

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

4.8 Risk factors – internal factors

4.8.1 Material risk factors

4.8.1.1 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". There is a risk that the Group will fail to achieve its objectives, which may be caused by various factors, including:

- errors of persons responsible for the implementation and execution of the strategy;
- market situation, business environment and competitors' activities;
- poorer availability of external financing;
- incorrect valuation of investments, including debt portfolios purchased;
- amendments to legal regulations, changes in interpretation thereof and actions of regulatory authorities;
- unfavourable decisions of Company shareholders;
- force majeure occurrences.

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

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

4.8.1.2 | **Risk of error in estimating the fair value of acquired debt portfolios**

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

4.8.1.3 | **Operational risk related to the Group's business**

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

4.8.1.4 | **Credit risk**

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

with the strongest effect on the scale of the Group's credit exposure include in particular:

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

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

4.8.1.5 | **Debt risk**

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

4.8.1.6 | **Risk of losing experienced management staff**

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

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

- executive staff, managers;
- experts with debt collection and credit management experience;
- risk managers, who have a central role in assessing and valuing debt portfolios for purchase, and in assessing debt collection performance;
- programmers and IT specialists focused on developing the IT infrastructure.

Inadequate work quality and insufficient number of experienced employees may lead to the Group generating poor financial performance.

4.8.1.7 | Risk of IT systems' failure

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

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

4.8.1.8 | Risk connected with related party transactions

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

4.8.1.9 | Risk of negative PR in relation to the Group

The nature of the Group's business exposes it to the risk of publication of untrue information concerning dealings with the KRUK Group or information that is detrimental to the Group's image. Negative publicity on the Group may undermine its credibility in the eyes of its current or potential trading partners, and consequently may have a negative effect on its financial performance.

The Group's business focuses on collection of debts mainly from natural persons. Some of those persons are in a difficult financial and personal situation, suffer from ill health or experience problems in their families or professional lives. Among the debtors that the KRUK Group deals with there are people who suffer from depression or undergo psychiatric treatment. Some of the debtors also express the intention to commit suicide. The Company estimates that each month it deals on average with more than a dozen suicide threats, but is not aware of any suicide threats actually carried out. None of the suicide threats are disregarded. They all are carefully analysed and reported to the police in line with the applicable procedures. In the case of suicide threats, notwithstanding the highest service standards and professional behaviour of the Group's employees, a risk exists that the debtor will carry the threat into effect. If information on such an event receives wide

publicity, it could generate negative PR for the KRUK Group.

4.8.2 | Risk management system

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

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

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

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

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

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

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

Having acquired by the end of 2014 as many as 456 debt portfolios and having carried out over 2,800 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the fair values of such portfolios. The information base it has compiled allows the Group to limit the risk of incorrect estimate of the fair value of the debt portfolios it has purchased.

4.8.2.2 | Managing the operating risk inherent in the Group's operations

The Group has put in place a quality assurance policy and specific procedures designed to manage and

minimise its operating risk (e.g. procedures for reconciliation, documentation and monitoring of transactions, procedures for periodic assessment of operating risks, the requirement to report on operating losses and propose remedies).

4.8.2.3 | Managing credit risk

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

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

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

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 ongoing basis, ensuring continuous cash inflow.
- Ensuring the Group's compliance with financial covenants under credit facility agreements and debt instrument issues.
- Use of external sources of financing, in the form of bank borrowings or bonds.

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

4.8.2.4 | Managing liquidity risk

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

Liquidity risk management tools used at the Group include:

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

4.8.2.5 | Managing the risk of loss of experienced management staff

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

4.8.2.6 | Managing the risk of IT systems' failure

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

4.8.2.7 | Managing the risk connected with related party transactions

Any transaction to be concluded with a related party within the Group is preceded by detailed analyses of

its legal and tax aspects in order to minimise the attached risk.

4.8.2.8 | **Managing the risk of negative PR in relation to the Group**

The Group takes every effort to build its positive image. Each year the Group undertakes initiatives aimed at enhancing the positive image of its brand, including:

- Information and media campaigns targeted at indebted individuals and companies.
- Information and advertising projects in Poland and abroad that include broadcasting television and radio advertising spots.
- Educational publications that promote its amicable settlement strategy in consumer and regional magazines in Poland, Romania and the Czech Republic.
- Press releases, consumer advice articles and individual statements for the press.
- Publications on the KRUK Group for the television, radio, the press and the Internet.

4.9 | **Agreements executed by companies of the KRUK Group**

4.9.1 | **Material agreements**

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2015 which may be considered material to the Group's operations.

4.9.1.1 | **Agreements executed with non-Group companies**

Debt purchase agreement concluded by Prokura NS FIZ with Sygma Banque Société Anonyme S.A. on April 17th 2015

On April 17th 2015, Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ" or "Fund"), KRUK S.A.'s subsidiary, entered into a debt assignment agreement with Sygma Banque Société Anonyme S.A., Polish Branch in Warsaw, a BNP Paribas Group company, following which the estimated total value of agreements concluded by the KRUK Group with the BNP Paribas Group over the previous twelve months reached PLN 68m. The agreement of the largest value in that period was the revolving credit facility agreement of October 3rd 2014 ("Agreement") between the Company and BNP Paribas Bank Polska S.A. ("Bank"). Under the agreement, the Bank agreed to advance to the Company a PLN 30m credit facility ("Credit Facility"), which was made available on December 1st 2014. For more

information, see Current Report No. 15/2015 of April 14th 2015.

Debt purchase agreement executed by SeCapital S.à r.l. with Piraeus Bank Romania S.A. on April 30th 2015

On April 30th 2015, KRUK S.A.'s subsidiary SeCapital S.à r.l. ("SeCapital" or "Buyer") and Piraeus Bank Romania S.A. ("Bank") executed a debt assignment agreement ("Agreement"), under which SeCapital acquired unsecured debt with a total nominal value of approximately RON 833.9m (PLN 760.8m, as translated at the mid-exchange rate quoted by the NBP for April 30th 2015) for RON 54.2m (PLN 49.5m, as translated at the mid-exchange rate quoted by the NBP for April 30th 2015). For more information, see Current Report No. 22/2015 of May 1st 2015 and Current Report No. 27/2015 of May 26th 2015.

Debt purchase agreement executed by Prokura NS FIZ with Santander Consumer Bank S.A. on May 15th 2015

On May 15th 2015, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ" or "Buyer") executed a debt purchase agreement ("Agreement") with Santander Consumer Bank S.A. ("Bank"), a Santander Group company. As a result, the total estimated value of all agreements executed by the KRUK Group and the Santander Group between December 16th 2014 and May 15th 2015 reached PLN 77m, thus exceeding 10% of the KRUK Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. The highest-value agreement executed in the period was the agreement between Prokura NS FIZ and Santander Consumer Bank S.A. referred to above. Under the agreement, Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debts with an aggregate nominal value of PLN 317m for a price of PLN 47.7m. For more information, see Current Report No. 25/2015 of May 15th 2015.

Framework debt purchase agreement executed by KRUK Deutschland GmbH with Commerz Finanz GmbH on July 29th 2015

On July 29th 2015, KRUK S.A.'s subsidiary KRUK Deutschland GmbH of Berlin entered into a framework debt purchase agreement with Commerz Finanz GmbH. Under the agreement, the assignor will sell to the Company, on a monthly basis, its retail debt from banking activities. The total nominal value of the debt is estimated at approximately EUR 37.5m (PLN 155.45m, as translated at the mid-exchange rate quoted by the NBP for July 29th 2015). For more information, see Current Report No. 51/2015 of July 29th 2015.

KRUK S.A. selected as IFC's operating partner in a project on the Romanian market

On July 31st 2015, the Management Board of KRUK S.A. was notified that

KRUK România SRL, KRUK S.A.'s subsidiary, was selected by International Finance Corporation of Washington, USA, as an operating partner for a potential investment project involving the establishment (jointly with other entities) of an SPV to negotiate a purchase of unsecured retail debts. For more information, see Current Report No. 52/2015 of July 31st 2015.

Negotiations between KRUK S.A and P.R.E.S.C.O. GROUP S.A.

On August 4th 2015, KRUK S.A. delayed until February 3rd 2016 the publication of confidential information on direct negotiations conducted by KRUK S.A., acting on behalf of its subsidiary, SeCapital S.à r.l. ("Buyer"), with P.R.E.S.C.O. GROUP S.A. ("Seller"), with a view to executing a share purchase agreement ("Investment Agreement") for the purchase of shares ("Shares") in Presco Investments S.à r.l. ("Presco Investments"). As a result of the negotiations, on September 18th 2015 a letter of intent was signed between KRUK S.A. and P.R.E.S.C.O. GROUP S.A. ("Letter of Intent"), defining the key terms of the transaction. The Letter of Intent set out the key terms of the sale of a 100% interest in Presco Investments S.à r.l. and the right to debt portfolios purchased in Poland and held by Presco Investments S.à r.l. and P.R.E.S.C.O. Investment I NS FIZ ("Fund"), with a total nominal value of PLN 2.7bn. The selling price was capped at PLN 220m, and will reflect the agreed adjustments, including reduction by any recoveries on the debt portfolios owned by the Company and the Fund. For more information, see Current Report No. 54/2015 of September 18th 2015 and Current Report No. 82/2015 of December 10th 2015.

Debt purchase agreements concluded by Prokura NS FIZ with Powszechna Kasa Oszczędności Bank Polski S.A. on December 16th 2015

On December 16th 2014, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ"), and Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw ("Bank") signed three debt purchase agreements. The agreements provided for the purchase by Prokura NS FIZ of mortgage-backed and unsecured debts of retail clients and businesses, including SMEs, comprising the Bank's receivables under agreements and other transactions, with a total nominal value of approximately PLN 722m for a total price of PLN 82.3m. For information on the Company winning the tender for the purchase of the debt, see Current

Report No. 60/2015 of October 20th 2015. For more information, see Current Report No. 86/2014 of December 16th 2015. For information on the fulfilment of a condition precedent under the Agreement, see Current Report No. 88/2015 of December 18th 2015.

Debt purchase agreement executed by ItaCapital S.r.l. with Unione di Banche Italiane S.p.a. on December 21st 2015

On December 21st 2015, KRUK S.A.'s subsidiary ItaCapital S.r.l. of Milan ("ItaCapital") and Unione di Banche Italiane S.p.a. of Bergamo ("Bank") executed a debt assignment agreement ("Agreement"), under which ItaCapital acquired unsecured debt with a total nominal value of approximately EUR 82.3m (PLN 350m, as translated at the mid-exchange rate quoted by the NBP for December 21st 2015) for EUR 4.56m (PLN 19.4m, as translated at the mid-exchange rate quoted by the NBP for December 21st 2015). For information on the Company winning the tender for the purchase of the debt, see Current Report No. 78/2015 of December 3rd 2015. For information on the fulfilment of a condition precedent (payment of the price), see Current Report No. 90/2015 of December 21st 2015.

Investment agreement between SeCapital S.à r.l. and Presco Investments Limited

On December 23rd 2015, KRUK S.A.'s subsidiary SeCapital S.à r.l. ("Buyer") entered into an investment agreement ("Agreement") with Presco Investments Limited of Malta ("Seller") (collectively: "Parties"). The Parties entered into the Agreement in connection with a transaction to sell 100% of shares, free of any encumbrances, unlimited and free of any third-party rights, in Presco Investments S.à r.l. ("Shares"), as well as of the right to debt portfolios purchased in Poland ("Transaction") and held by the Seller and P.R.E.S.C.O. Investment I NS FIZ ("Fund"), comprising two million cases with a total nominal value of PLN 2.7bn. Pursuant to the Agreement, the Seller intends to sell, and the Buyer intends to purchase, 390,050 shares in Presco Investments S.à r.l., with a total par value of PLN 39,005,000, for a price of PLN 216.8m ("Price"). The Shares confer the right to debt portfolios purchased in Poland with a total nominal value of PLN 2.7bn. The final Price will reflect the agreed adjustments, including reduction by any recoveries on the debt portfolios owned by the Seller and the Fund. The title to the Shares will be transferred from the Seller to the Buyer upon signing by the Parties of a representation on the fulfilment of conditions and transfer of the Shares ("Representation"). For more information, see Current Report No. 91/2015 of December 23rd 2015.

Surety agreement with P.R.E.S.C.O. GROUP S.A.

On December 30th 2015, KRUK S.A.'s subsidiary SeCapital S.à r.l. ("Creditor") entered into a surety agreement ("Surety Agreement"), under which P.R.E.S.C.O. GROUP S.A. ("Guarantor") issued a surety for the liabilities of Presco Investments Limited ("Debtor", "Seller") to the Creditor under the investment agreement described in the abovementioned report. Under the Surety Agreement, the Guarantor granted to the Creditor a surety of up to PLN 216.8m in case of the Debtor's failure to perform or improper performance of any of its obligations under the investment agreement, including in particular the obligations connected with the breach of the Seller's representations and warranties, return of advance payment, payment of compensation and contractual penalties to the Creditor. The surety was granted as of the date of the investment agreement and will be valid for six years from the closing date for the Transaction announced by the Company in the report referred to above. For more information, see Current Report No. 95/2015 of December 30th 2015.

4.9.1.2 | Agreements executed with Group companies

Agreement for the management of securitised debt executed between PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty and KRUK S.A.

On April 1st 2015, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ" or "Fund") and KRUK S.A. entered into an agreement for the management of securitised debt ("Management Agreement"), as a result of which the estimated aggregate value of all agreements concluded by KRUK Group companies with SeCapital S.à r.l. (KRUK S.A.'s subsidiary) and its subsidiary Prokura NS FIZ over the last twelve months reached PLN 292m, and thus exceeded 10% of the KRUK Group's revenue. The highest-value agreement executed in that period was the Management Agreement of April 1st 2015. The aggregate amount of payments to be made under the Management Agreement over a five-year period is estimated at approximately PLN 247m. The Management Agreement was executed after KRUK S.A. changed the profile of services provided to the Fund, from provision of services relating to the Fund's securitised debt to management of such debt. The Management Agreement provides for the management of the Fund's securitised debt consisting in debt collection, debt administration, as well as searching for, acquiring, and selling, on behalf of the Fund, of

debts which may constitute the Fund's investments in accordance with the Fund's investment policy. For more information, see Current Report No. 11/2015 of April 1st 2015.

Loan agreement executed by KRUK S.A. and KRUK România SRL on July 2nd 2015

On July 2nd 2015, KRUK S.A. and KRUK S.A.'s subsidiary KRUK România SRL ("KRUK România") entered into a loan agreement, as a result of which the total value of agreements executed between KRUK România and other companies of the KRUK Group between June 16th 2014 and the date of this report reached PLN 52.8m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was the loan cancellation agreement of December 30th 2014 ("Agreement").

Under the Agreement, the Company cancelled KRUK România's liabilities of RON 21.08m (PLN 20.30m, as translated at the mid-exchange rate quoted by the NBP for December 30th 2014). For more information, see Current Report No. 40/2015 of July 2nd 2015.

Loan agreement executed between KRUK S.A. and InvestCapital Malta Ltd. on December 28th 2015

On December 28th 2015, KRUK S.A. and KRUK S.A.'s subsidiary InvestCapital Malta Ltd. ("InvestCapital") entered into a loan agreement, as a result of which the total value of agreements executed between InvestCapital and other companies of the KRUK Group between the date of Current Report No. 72/2014, that is December 29th 2014, and the date of this report reached PLN 61m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was the loan agreement referred to above ("Agreement"). Under the Agreement, the Company advanced a loan to InvestCapital for the financing of its day-to-day operations. The loan was granted for a period from December 28th 2015 to the final repayment date set at December 21st 2016. The amount of the loan is EUR 8m (PLN 34m, as translated at the mid-exchange rate quoted by the NBP for December 28th 2015). For more information, see Current Report No. 92/2015 of December 28th 2015.

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

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

4.9.3 | Loan agreements

Amendment to the credit facility agreement executed by KRUK S.A. with BGŻ BNP Paribas Bank Polska S.A. on October 3rd 2014

On September 30th 2015, the Company ("Borrower") and BGŻ BNP Paribas Polska S.A. ("Bank") executed Amendment No. 1 ("Amendment") to the revolving credit facility agreement ("Credit Facility Agreement"). Under the Amendment, the Bank increased the credit facility amount granted to the Borrower to PLN 50m ("Credit Facility"), including up to PLN 20m that can be drawn in the euro. The Amendment extended the purpose of the financing and defined it as financing or refinancing of up to 80% of the purchase price of debt portfolios acquired on the Polish, Romanian, Czech, Slovak or German markets by the Borrower and its subsidiaries: SeCapital S.à r.l. and Non-Standard Securitisation Closed-End Investment Funds ("Funds"): RoCapital IFN S.A., KRUK Česká a Slovenská republika s.r.o., KRUK Deutschland GmbH, InvestCapital Malta Ltd. The new final repayment date for the Credit Facility was set for April 3rd 2020. The Credit Facility's interest rate was set on an arms' length basis, at 3M WIBOR or 3M EURIBOR plus bank margin.

Following the Amendment, the repayment of the Bank's receivables under the Credit Facility Agreement is secured with:

- a registered pledge over debt portfolios purchased by the Borrower and financed or refinanced with proceeds from the Credit Facility granted under the Credit Facility Agreement;
- a financial pledge under Luxembourg law over shares in a SeCapital S.à r.l. compartment, where SeCapital S.à r.l. or the Funds (RoCapital IFN S.A., KRUK Česká a Slovenská republika s.r.o., KRUK Deutschland GmbH or InvestCapital Malta Ltd.) use the Credit Facility to finance or refinance purchases of debt portfolios; or
- a financial pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd., where InvestCapital Malta Ltd. uses the Credit Facility to finance or refinance purchases of debt portfolios;
- power of attorney to the Borrower's accounts held with the Bank.

The collateral for the Bank's receivables under the Credit Facility Agreement is a pledge under Luxembourg law over the Company's shares in SeCapital S.à r.l. As at December 31st 2015, the pledge existed over 26,904 Class D shares in SeCapital S.à r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 29,594,400.

The other provisions of the Credit Facility Agreement, including in particular the provisions relating to disbursement of the facility, default interest and withdrawal from or termination of the Credit Facility Agreement, do not differ from standard provisions used in agreements of such type. The Credit Facility Agreement stipulates no conditions precedent or subsequent.

After December 31st 2015, on February 5th 2016, the Company ("Borrower") and BGŻ BNP Paribas S.A. ("Bank") executed Amendment No. 2 ("Amendment No. 2") to the multi-purpose credit facility agreement, whereunder the Bank granted to the Borrower a credit facility of up to PLN 100m, including in the euro, up to the euro equivalent of PLN 100m (the "Credit Limit"). In the period between April 1st 2017 and the final maturity date (set for December 31st 2020), the Credit Limit will be reduced quarterly by PLN 6.25m.

The facility is to be used for the financing of the Company's day-to-day business, understood as the financing or refinancing of up to 80% of the purchase price/instalment of the purchase price of debt portfolios acquired on the Polish, Romanian, Czech, Slovak or German markets by the Borrower or selected entities of the KRUK Group.

The Credit Facility bears interest at a variable rate based on 3M WIBOR plus bank margin (for amounts drawn in PLN) or 3M EURIBOR plus bank margin (for amounts drawn in EUR).

Following Amendment No. 2, the repayment of the Bank's receivables under the Credit Facility Agreement is secured with:

- a registered pledge over debt portfolios purchased by the Borrower and financed or refinanced with proceeds from the Credit Facility;
- a financial pledge under Luxembourg law over the Borrower's shares in a SeCapital S.à r.l. compartment, or a financial pledge under Luxembourg law over InvestCapital Malta Ltd.'s shares in a SeCapital S.à r.l. compartment, or a financial pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd.;
- a power of attorney to the Borrower's accounts held with the Bank;
- declaration of the Company's submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure.

Other terms and conditions of the Agreement do not materially differ from those commonly used in agreements of such type.

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

On October 16th 2015 (as announced by the Company in Current Report No. 58/2015 of October 16th 2015), an annex was signed to the trilateral revolving credit facility agreement concluded by the Company and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") with Bank Zachodni WBK S.A. ("Bank"), as amended ("Prokura Agreement"). Under the annex, the total credit facility amount was reduced to PLN 20m, individual limits were replaced with one limit, for which the availability end date and the final repayment date were set for October 31st 2020.

In connection with the annex to the Prokura Agreement, on October 16th 2015 the Company concluded a surety agreement ("Surety Agreement") with the Bank, covering Prokura's liabilities towards the Bank under the Prokura Agreement, subject to the provisions of the annex, thus becoming a joint and several debtor in respect of the liabilities. The Surety Agreement is described in detail in Section 4.9.4.5. Sureties.

On October 16th 2015 (as announced by the Company in Current Report No. 58/2015 of October 16th 2015), the Company ("Borrower") and Bank Zachodni WBK S.A. executed an annex to the revolving credit facility agreement of April 8th 2011, as amended (the "Credit Facility Agreement"). Under the annex, the existing three credit facilities were replaced with two credit facilities:

- credit facility in the facility account for up to PLN 65m or its euro equivalent, with the availability end date and the final repayment date set for October 31st 2020;
- additional credit facility in the facility account for up to PLN 55m or its euro equivalent, with the availability end date and the final repayment date set for October 31st 2018. The annex also stipulates that the Borrower may use the credit facility for up to PLN 120m (or its euro equivalent) to refinance or finance debt portfolio purchases in Poland, Romania, the Czech Republic, Slovakia and Germany.

The annexes provide for alternative forms of security which, upon satisfying certain conditions, may be used to secure receivables under the Prokura Agreement and the Credit Facility Agreement, i.e.:

- a pledge under Luxembourg law over InvestCapital Malta Ltd.'s shares in a compartment of SeCapital S.à r.l.;
- a pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd.

The Bank's receivables under the Credit Facility Agreement and the Prokura Agreement, that is the

PLN 140m principal amount (the aggregate amount of the facilities) and claims concerning interest, fees, commissions and expenses (if any), are secured with a pledge under Luxembourg law over the Company's shares in SeCapital S.à r.l. As at December 31st 2015, the pledge existed over 175,072 Class E shares in SeCapital S.à r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 192,579,200.

All other provisions of the Prokura Agreement and the Credit Facility Agreement, including in particular the provisions relating to the disbursement of the facilities, default interest and withdrawal from or termination of the Agreements, remained unchanged.

Credit facility agreement executed by Prokura NS FIZ and KRUK S.A. with mBank S.A. on July 2nd 2015

On July 2nd 2015, KRUK S.A. and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") entered into a trilateral agreement with mBank Spółka Akcyjna ("Bank") on a revolving credit facility ("Credit Facility") for the total amount of up to PLN 100m ("Credit Facility Agreement") to be used to finance or refinance debt portfolios purchased by the Borrower, up to 75% of the purchase price/instalment of the purchase price of a portfolio (as announced by the Company in Current Report No. 39/2015 of July 2nd 2015). The Bank granted the Credit Facility to the Borrower for the period from July 2nd 2015 to July 1st 2020 ("Final Repayment Date"). The Credit Facility amount will be PLN 100m in the period from July 2nd 2015 to January 1st 2018, to be reduced quarterly, in the period from January 2nd 2018 to July 1st 2020, by PLN 10m in the first six quarters and by PLN 8m in the remaining four quarters. The Borrower will repay the Credit Facility by the Final Repayment Date, together with all accrued interest, fees and commissions and other costs payable under the Credit Facility Agreement. The repayments will be made in quarterly instalments. The Credit Facility's interest rate was set on an arms' length basis, at a rate equal to the WIBOR rate for one-month interbank deposits in PLN, plus bank margin.

The repayment of the Bank's receivables under the Credit Facility Agreement is secured with:

- a surety under civil law issued by the Company, covering the Borrower's liabilities under the Credit Facility Agreement;
- a power of attorney to the Borrower's bank account;
- a financial pledge over the Borrower's bank account;
- a power of attorney to the Company's accounts held with the Bank;

- a registered pledge under Polish law over the Borrower's portfolios (refinanced/financed by the Bank or other – as additional security).

In connection with the Credit Facility Agreement, on July 2nd 2015, Prokura NS FIZ and the Bank executed an agreement on a financial pledge over rights to funds in Prokura NS FIZ's bank account, and, on August 19th 2015, an agreement on a registered pledge over a set of rights (Prokura NS FIZ's debt portfolio). As at December 31st 2015, the carrying amount of the registered pledge in KRUK S.A.'s accounting books was PLN 2,617,964.

In connection with the Credit Facility Agreement, on July 2nd 2015, the Company and the Bank executed a surety agreement ("Surety Agreement"), whereunder the Company issued a surety for the Borrower's liabilities towards the Bank under the Credit Facility Agreement, thus becoming a joint and several debtor in respect of the liabilities. The Surety Agreement is described in detail in Section 4.9.4.5. Sureties.

The Credit Facility Agreement does not provide for any contractual penalties to be imposed on the Company other than interest on overdue debt. The other provisions of the Credit Facility Agreement, including in particular the provisions relating to default interest and termination of the Credit Facility Agreement, do not differ from standard provisions used in agreements of such type.

Termination of credit facility and loan agreements

In 2015, the KRUK Group companies, except for Novum Finance Sp. z o.o. and KRUK S.A. in the NOVUM loans segment, did not terminate any credit facility or loan agreements.

4.9.4 | Loans advanced and sureties issued; sureties and guarantees received

4.9.4.1 | Loans advanced by KRUK S.A. to its subsidiaries

In 2015, KRUK S.A. granted loans to its subsidiaries in the total amount of PLN 124.4m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates). The loans were granted to KRUK România SRL of Bucharest, KRUK Česká a Slovenská republika s.r.o. of Hradec Králové, ERIF Business Solutions sp. z o.o. of Wrocław, RoCapital IFN S.A. of Bucharest, Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław and InvestCapital Malta Ltd. of Malta. Interest rate was set at 1M or 3M WIBOR (for PLN loans), 1M or 3M PRIBOR (for CZK loans), 1M or 3M EURIBOR (for EUR loans) and 1M or 3M ROBOR

(for RON loans) plus margin. The agreed maturities ranged from 350 days to one year.

Loans advanced to KRUK România SRL of Bucharest

The loans were granted to KRUK România SRL of Bucharest to finance its operating and investing activities. The loans granted in 2015 totalled PLN 38.4m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

Some of the loans advanced in 2014 and 2015 – PLN 20.8m plus interest of PLN 0.6m, that is PLN 21.4m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for the date of the debt cancellation agreements) – were cancelled.

As at December 31st 2015, all liabilities of KRUK România SRL towards KRUK S.A. under loans, including interest, totalled PLN 19.3m (as translated into PLN at the mid exchange rate quoted by the NBP for December 31st 2015). An impairment loss was recognised for the full amount of receivables under the loans.

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

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové were intended for the financing of the company's operating and investing activities. The loans totalled PLN 23.9m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

Interest of PLN 2.93m on loans advanced in 2011 and 2013 and some of the loans made in 2014 and 2015, namely principal of PLN 13.42m plus interest of PLN 0.8m, that is PLN 17.15m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for the date of the debt cancellation agreements, i.e. December 31st 2015) – were cancelled.

As at December 31st 2015, all liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK S.A. under loans totalled PLN 18.75m plus interest (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2015). An impairment loss was recognised for the full amount of receivables under the loans.

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

Loans advanced to ERIF Business Solutions Sp. z o.o. of Wrocław were intended for the financing of the company's operating activities. The aggregate

amount of the loans advanced to the company in 2015 was PLN 0.1m.

As at December 31st 2015, ERIF Business Solutions Sp. z o.o.'s outstanding liabilities towards KRUK S.A. under loans, including interest, amounted to PLN 2.8m.

Loan advanced to RoCapital IFN S.A. of Romania

Loan advanced to RoCapital IFN S.A. of Romania was intended for the financing of the company's business. In 2015, RoCapital IFN S.A. received a loan of PLN 8.9m (as translated at the exchange rate quoted by the NBP for the loan date).

As at December 31st 2015, RoCapital IFN's S.A. outstanding liabilities towards KRUK S.A. under loans amounted to PLN 8.9m.

Loans advanced to InvestCapital Malta Ltd. of Malta

Loans advanced to InvestCapital Malta Ltd. of Malta were intended for the financing of the company's business. In 2015, loan agreements were signed for a total amount of PLN 52.2m (as translated at the exchange rate quoted by the NBP for the loan date).

As at December 31st 2015, InvestCapital Malta Ltd.'s outstanding liabilities towards KRUK S.A. under loans stood at PLN 16.6m.

Loans advanced to Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław

Loans advanced to Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław were intended for the financing of the company's operating activities. The aggregate amount of the loans advanced to the company in 2015 was PLN 1m.

As at December 31st 2015, Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa's outstanding liabilities towards KRUK S.A. under loans stood at PLN 1m.

4.9.4.2 | Loans received by the Company from subsidiaries

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

As at December 31st 2015, KRUK S.A.'s outstanding liabilities towards Novum Finance Sp. z o.o. under loans stood at PLN 0.3m. Loans from Novum Finance Sp. z o.o. of Wrocław were used to repay some of loans from other subsidiaries.

Loan from RoCapital IFN S.A. of Romania

Loan from RoCapital IFN S.A. of Romania was intended for the financing of the Company's business. In 2015, a loan of PLN 14.4m (as translated at the exchange rate quoted by the NBP for the loan date) was received.

As at December 31st 2015, the Company had no outstanding liabilities towards RoCapital IFN S.A. under loans as the loan was repaid in full in 2015.

4.9.4.3 | NOVUM loans advanced by the KRUK Group

In 2015, the KRUK Group advanced a total of 9,437 Novum cash loans, with a net value of PLN 29m. The lender was KRUK S.A.

As part of the Novum business line, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market. Revenue from NOVUM loans posted by the Group in 2015 was PLN 10.1m, which means a year-on-year increase of 38%.

4.9.4.4 | Guarantees

On December 2nd 2015, KRUK S.A. signed an annex to a bank guarantee agreement with Bank Zachodni WBK S.A. and received Annex 1 to the bank guarantee of December 17th 2014 issued to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a lease agreement for a part of an office building, executed between KRUK S.A. and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2016. The guarantee amount is EUR 277,145.20 and PLN 186,331.72. The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A. In accordance with the terms of the annex to the bank guarantee agreement, on January 28th 2016, the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to EUR 0.4m and PLN 0.3m. The Bank may request the court to issue an enforcement order to this declaration by December 30th 2021.

4.9.4.5 | Sureties

Following the execution on July 2nd 2015 of a revolving credit facility agreement by Prokura NS FIZ, the Company and mBank S.A., on July 2nd 2015, the Company entered into a surety agreement with mBank S.A., whereunder KRUK S.A. issued a surety for the liabilities of Prokura NS FIZ under the revolving credit facility agreement, thus becoming a joint and several debtor in respect of the liabilities (as announced by KRUK S.A. in Current Report No. 39/2015). The surety was issued for up to PLN 150m. It will expire not later than on July 1st 2023.

Following the execution on October 16th 2015 of an annex to the trilateral revolving credit facility agreement of February 18th 2013 ("Prokura Agreement") by the Company, Prokura NS FIZ and Bank Zachodni WBK S.A. ("Bank"), on October 16th 2015 the Company and Bank Zachodni WBK S.A. entered into a new surety agreement ("Surety Agreement") under which the Company issued a surety for the liabilities of Prokura NS FIZ towards the Bank under the Prokura Agreement, subject to the provisions of the annex of October 16th 2015 to the Prokura Agreement, thus becoming a joint and several debtor in respect of the liabilities (as announced by the Company in Current Report No. 59/2015 of October 16th 2015). The Surety Agreement rendered null and void the surety agreement of October 28th 2014 between the Company and the Bank. In accordance with the terms of the Surety Agreement, on December 16th 2015, the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 30m. The Bank may request the court to issue an enforcement order to this declaration by October 31st 2023. The surety was issued for an indefinite time, until the liabilities under the Prokura Agreement expire.

4.10 | Court, administration and arbitration proceedings

4.10.1 | General information

As part of the ordinary course of business, the Company and its subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2015, the Company and its subsidiaries were plaintiffs or participants in 312,139 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 6,697,576,309. Furthermore, in 2015, 754,529 enforcement proceedings were instigated upon motions filed by the Company and its subsidiaries, with a total value of claims being

enforced of approximately PLN 10,324,978,477. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and its subsidiaries.

In 2015, the Company and its subsidiaries were defendants in 2,484 court proceedings, where the total value of claims was approximately PLN 231,298,437. The proceedings were chiefly proceedings against enforcement instigated in relation to the Company's or its subsidiaries' operating activities concerning debt recovery. The Company and its subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or its subsidiaries where the value of claims would exceed 10% of the Company's equity.

No bankruptcy or recovery proceedings were conducted with respect to the Company or its subsidiaries. In the case of Novum Finance Sp. z o.o., liquidation proceedings are pending against the company. Liquidation of the Prokulus NS FIZ securitisation fund was closed on May 6th 2015.

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

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

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

Among proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 100,000 – was proceedings against KRUK S.A. for infringement of personal rights in the course of its operations. The Company expects the claim to be dismissed in its entirety.

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

Among court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 30,828,938 – was bankruptcy proceedings concerning Prokura NS FIZ's claims against Libertów Sp. z o.o. w upadłości (in bankruptcy). The Company expects its claim to be satisfied to

a small extent. Court proceedings were also pending with respect to Prokura NS FIZ's claim of PLN 22,703,642 against Zakłady Przetwórstwa Tworzyw EKO-PET Spółka z o.o. The company expects its claim to be satisfied partially.

4.11 | Material events after December 31st 2015

In the period from January 1st 2015 to the date of issue of this report, the following events took place.

On February 4th 2016, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura NS FIZ, "Buyer") executed a debt purchase agreement ("Agreement") with Santander Consumer Bank S.A. ("Bank"), a company of the Santander Group. As a result, the total estimated value of all agreements executed by the KRUK Group and the Santander Group between May 16th 2015 and the date of this report reached PLN 77m, thus exceeding 10% of the KRUK Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. The highest-value agreement executed in that period was the Agreement between Prokura NS FIZ and Santander Consumer Bank S.A. referred to above. Under the Agreement, Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debts with an aggregate nominal value of PLN 327m for a price of PLN 51.9m ("Price"). For more information, see Current Report No. 6/2016 of February 4th 2016.

On February 5th 2016, KRUK S.A. executed an annex ("Annex") to the revolving credit facility agreement with an entity of the BNP Paribas Group, namely Bank BGŻ BNP Paribas S.A. of Warsaw ("Bank"). As a result, the total estimated value of all agreements executed between the KRUK Group and the BNP Paribas Group between April 18th 2015 and the date of this report reached PLN 74.9m, thus exceeding 10% of the KRUK Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. In terms of value, the largest of these agreements was the Annex to the revolving facility agreement ("Agreement"), signed on October 3rd 2014 between the Company

and the Bank, as announced in Current Report No. 15/2015 of April 17th 2015. Under the Annex, the Bank advanced to the Company a credit facility in totalling PLN 100m. For more information, see Current Report No. 8/2016 of February 5th 2016.

On February 8th 2016, KRUK S.A. executed a loan agreement with its subsidiary KRUK Česká a Slovenská republika s.r.o. ("Subsidiary"), as a result of which the total value of agreements executed between the Subsidiary and other companies of the KRUK Group ("Group") over the past 12 months reached PLN 57.2m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was a loan cancellation agreement of December 31st 2015 ("Agreement"). Under the Agreement, the Company cancelled the Subsidiary's liabilities of CZK 120.91m (PLN 19.07m, as translated at the mid-exchange rate quoted by the NBP for December 31st 2015). For more information, see Current Report No. 9/2016 of February 8th 2016.

4.12 | Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to facilitate the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2015, the strategy of building the platform supporting operating processes remained unchanged – the Company's internal resources continued the development of the platform, improving its flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its key operational processes.

4.13 | Environmental issues

Given the nature of the KRUK Group's business, there are no material environmental issues involved in its activities.



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Corporate governance

- Statement of compliance with corporate governance standards
- Shareholding structure
- Governing bodies
- Rules governing amendments to the Company's Articles of Association
- Key features of internal control and risk management systems used in the process of preparation of financial statements and consolidated financial statements

5 | Corporate governance

5.1 | Statement of compliance with corporate governance standards

Acting under Par. 91.5.4 of the Regulation on current and periodic information, the KRUK S.A. Management Board hereby presents the statement of compliance with corporate governance standards in 2015.

5.1.1 | Adopted code of corporate governance

In 2015, the Company applied corporate governance standards described in the Code of Best Practice for WSE Listed Companies (Corporate Governance Principles), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The document is available on the website of Giełda Papierów Wartościowych w Warszawie S.A. (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 Series A, Series AA, Series B, Series C and Series D Company Shares on the Warsaw Stock Exchange, on April 6th 2011 the Company's Management Board passed a resolution stating that the Company and its governing bodies observed the corporate government standards set forth in the Code of Best Practice for WSE Listed Companies to the extent specified in the appendix to the resolution. The appendix, containing the Code of Best Practice for WSE Listed Companies along with information on the declared extent of the Company's compliance with the standards set out in the document, is available on the Company's website.

Then, by way of a resolution of December 20th 2012, the Management Board amended the abovementioned appendix in order to incorporate the amendments introduced by the WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The text of the statement, specifying the extent to which the Company intended to comply with the standards, is available on KRUK S.A.'s website, at: <http://pl.kruk.eu/pl/dla-inwestora/spolka/dokumenty-korporacyjne/>. The document also contains the corporate government standards which the Company elected to comply with voluntarily.

Following the adoption by the WSE Supervisory Board of the Code of Best Practice for WSE Listed Companies 2016 by way of Resolution No. 26/1413/2015 of October 13th 2015, the Management

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

The text of the statement, specifying the extent to which the Company intends to comply with the standards, is available on KRUK S.A.'s website, at: <http://pl.kruk.eu/pl/dla-inwestora/spolka/dokumenty-korporacyjne/>.

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

As per the Management Board's statement, in 2015 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 whereby a company should have a remuneration policy and rules of defining that policy, the Company did not implement a remuneration policy for Management and Supervisory Board members. The rules governing remuneration for the 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 the 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 considered the development of a remuneration policy and rules of defining that policy. The Management Board adopted the policy by Resolution No. 154/2015 on December 8th 2015.

The Company elected not to comply with the recommendations included in part I section 12 and part IV section 10 of the Code of Best Practice for WSE Listed Companies, under which a company should enable its shareholders to remotely exercise their voting rights at a General Meeting personally or by a proxy using

electronic means of communication, as well as enable its shareholders to participate in a General Meeting using electronic means of communication through real-life broadcast of General Meetings and real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting. The Company explains that it currently does not have appropriate technical facilities to enable its shareholders to participate in General Meetings as specified above. Consequently, the risk of incorrect progress of a General Meeting would outweigh the potential benefit of a larger number of shareholders participating in the meeting, which is the objective of the recommendation.

In 2015, 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 are 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 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 obliged to publish resolutions passed during General Meetings. The Company's position is that the above requirements ensure full 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.

The Company also elected not to comply with the principle stipulated in part II section 1.9a) of the Code of Best Practice for WSE Listed Companies, whereby the Issuer should publish a record of the General Meeting

in audio or video format on the Company's corporate website. The Company explained that it was considering recording its general meetings and publishing the records on its website. Following the adoption by the Management Board of the statement of compliance with new corporate governance standards by the way of Resolution No. 1/2016, the Management Board declared compliance with the principle.

Regarding the obligation to run an English-language website, in 2015 the Company complied with that principle, with certain exceptions. In line with the representation made by the Company, the English version of its website contained 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 Meetings. In the Company's opinion, the availability of the above information in English adequately protected the interests of its existing shareholders. However, if the Company was advised by its shareholders of the need for more information available in English, it was prepared to publish on its website the English language version of all information specified in the Code. In the statement adopted by the Management Board by way of Resolution No. 1/2016, the Company declared availability of its website in English in compliance with Art. I.Z.1. of the Code.

5.2 | Shareholding structure

5.2.1 | Shareholders holding directly or indirectly significant holdings of shares in KRUK S.A.

Table 31 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at January 1st 2015, based on shareholder notifications received by the Company.

Table 31. Shareholders with significant holdings in KRUK S.A as at January 1st 2015

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	2,069,662	12.10
ING PTE*	1,835,643	10.73
Aviva OFE	1,676,165	9.80
Generali OFE**	1,545,000	9.20

* Joint shareholding of ING OFE and ING DFE, managed by ING PTE S.A.

** Data as at GM of May 28th 2014.

Source: the Company.

Table 32 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at December 31st 2015.

Table 33 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at March 6th 2016.

5.2.2 | Changes in the shareholding structure in the reporting year

Below are described changes in significant holdings of KRUK S.A. shares in 2015.

- On May 21st 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning sale transactions in KRUK S.A. shares executed on the Warsaw Stock Exchange, including ordinary transactions executed during trading sessions on May 14th 2015 in which he sold 7,000 shares at the average price of PLN 167 per share and a block trade on May 15th 2015 in which he sold 10,000 shares at the average price of PLN 163 per share.
- On July 16th 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning a block trade executed on the Warsaw Stock Exchange on July 16th 2015, in which he sold 15,000 KRUK S.A. shares at the average price of PLN 162 per share.
- On November 20th 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning sale transactions in KRUK S.A. shares including: a block trade executed on November 16th 2015 in which he sold 5,000 shares at the average price of PLN 190 per share; and ordinary transactions executed on the Warsaw Stock Exchange during trading sessions on November 16th 2015 in which he sold 500 shares at the average price of PLN 190 per share, on November 17th 2015 in which he sold 785 shares at the average price of PLN 190 per share, and on November 19th 2015 in which he sold 1,450 shares at the average price of PLN 188 per share.
- On December 15th 2015, the Company received a notification from Piotr Krupa, President of the

Table 32. Shareholders with significant holdings in KRUK S.A as at December 31st 2015

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	2,026,927	11.65
NN PTE*	1,950,000	11.21
Aviva OFE**	1,446,000	8.31
Generali OFE**	1,100,000	6.32

* Joint shareholding of N-N OFE and N-N DFE, managed by N-N PTE S.A.

** Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on June 23rd 2015.

Source: the Company.

Table 33. Shareholders with significant holdings in KRUK S.A as at March 6th 2016

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	2,016,927	11.51
NN PTE*	1,950,000	11.13
Aviva OFE	1,446,000	8.26
Generali OFE**	1,100,000	6.28

* Joint shareholding of N-N OFE and N-N DFE, managed by N-N PTE S.A.

** Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on June 23rd 2015.

Source: the Company.

Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 3,000 KRUK S.A. shares at the average price of PLN 170 per share in ordinary transaction executed during a trading session on the Warsaw Stock Exchange on December 14th 2015.

Subsequent to the reporting period, on January 5th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.

5.2.3 Treasury shares

Treasury shares in the period October 25th 2011 – April 30th 2015

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, with the provision that the total par value of the shares so purchased may not exceed PLN 1m, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 40m, including the share price and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 100 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares purchased 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 a 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.

Shares purchased 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 a 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.

Treasury shares in the period May 1st 2015 – June 30th 2019

On May 28th 2014, the Annual General Meeting of KRUK S.A. authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, in the period from May 1st 2015 to June 30th 2019, with the proviso that the total par value of the shares so purchased may not exceed PLN 1.5m, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 50m, including the share price and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 150 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares purchased 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 No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014;
- 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 June 30th 2019 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 2015, the Company did not buy back any of its shares.

5.2.4 Holders of securities conferring special control powers

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

5.2.5 Limitations on the exercise of voting rights

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

5.2.6 Limitations on transfer of ownership of securities

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

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

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

5.3 Governing bodies

5.3.1 Management Board

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

The Company's management body is the Management Board.

In the period January 1st – December 31st 2015, the Company's Management Board consisted of five members. Composition of the Management Board in 2015 is presented in Table 34.

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 and Par 7.2, the Management Board is composed of three to eight members, and the number of members is defined each time by the Supervisory Board upon request by the President of the Management Board.

The 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.

Since the Management Board's term of office expired on March 19th 2015, the Company's Supervisory Board appointed the Management Board members for another term of office by virtue of resolutions adopted on March 13th 2015.

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.

Table 34. Composition of the Management Board of KRUK S.A. in 2015

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

Source: the Company.

5.3.1.2 | Powers of the Management Board

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

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

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

By virtue of Resolution No. 4/2011 of the Extraordinary General Meeting of KRUK S.A. of Wrocław, held on October 20th 2011, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e.

the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

By virtue of Resolution No. 23/2014 of the Annual General Meeting of KRUK S.A. of Wrocław, held on May 28th 2014, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

5.3.1.3

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

Table 35 presents Company shares or rights to Company shares held by Management Board members as at January 1st 2015.

Apart from the changes in the number of shares held by Mr Piotr Krupa, President of the Management Board, described in the section entitled Shareholding structure, in the period from January 1st 2015 to the date of issue of this report, there was also a change in the holdings of Company shares owned by Ms Iwona Słomska, Ms Urszula Okarma, Ms Agnieszka Kułton, and Mr Michał Zasępa.

On January 19th 2015, the Company received a notification from Mr Michał Zasępa, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Zasępa had sold 32 shares in KRUK S.A. on December 4th 2014, and 2,268 shares on January 14th 2015, in

Table 35. KRUK S.A. shares held by Management Board members as at January 1st 2015

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,069,662	2,069,662
Agnieszka Kułton	Member of the Management Board	47,220	47,220
Urszula Okarma	Member of the Management Board	131,364	131,364
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	8,000	8,000

Source: the Company.

ordinary transactions executed at trading sessions on the Warsaw Stock Exchange.

On April 30th 2015, the Company received a notification from Ms Urszula Okarma of her acquisition of 9,507 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 9,507 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 9,507 Series C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On April 30th 2015, the Company received a notification from Ms Agnieszka Kułton of her acquisition of 30,521 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 30,521 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 30,521 Series A, B and C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On April 30th 2015, the Company received a notification from Ms Iwona Słomska of her acquisition of 8,257 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 8,257 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 8,257 Series C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On July 16th 2015, the Company received a notification from Ms Iwona Słomska, given under Art. 160.1 of the

Act on Trading in Financial Instruments, of her sale of Company shares in ordinary transactions executed during trading sessions on the Warsaw Stock Exchange: 4,260 shares at the average price of PLN 160.10 per share on July 10th 2015, and 2,997 shares at the average price of PLN 160.37 per share on July 13th 2015.

On July 16th 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of the Act on Trading in Financial Instruments, of his sale of 3,000 KRUK S.A. shares at the average price of PLN 166.52 per share in an ordinary transaction executed during the trading session on the Warsaw Stock Exchange on July 15th 2015.

On July 16th 2015, the Company received a notification from Ms Agnieszka Kułton, given under Art. 160.1 of the Act on Trading in Financial Instruments, of her sale of 15,000 KRUK S.A. shares at the average price of PLN 162.00 per share in a block trade executed on the Warsaw Stock Exchange on July 15th 2015.

On July 16th and July 17th 2015, the Company received notifications from Ms Urszula Okarma, given under Art. 160.1 of the Act on Trading in Financial Instruments, concerning transactions in KRUK S.A. shares in which she sold 20,000 shares at the average price of PLN 162.00 per share and 30,000 shares at the average price of PLN 168.00 per share. The shares were sold in block trades on the Warsaw Stock Exchange on July 15th 2015 and July 17th 2015, respectively.

On October 30th 2015, the Company received a notification from Mr Michał Zasępa of his acquisition of 29,014 Series E shares in the Company. According to the notification, the shares were acquired on October 30th 2015,

Table 36. KRUK S.A. shares held by Management Board members as at December 31st 2015

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,026,927	2,026,927
Agnieszka Kułton	Member of the Management Board	62,741	62,741
Urszula Okarma	Member of the Management Board	90,871	90,871
Iwona Słomska	Member of the Management Board	41,000	41,000
Michał Zasępa	Member of the Management Board	26,306	26,306

Source: the Company.

when 29,014 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 29,014 Series B and C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On November 24th 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of the Act on Trading in Financial Instruments, of his sale of 408 KRUK S.A. shares at the average price of PLN 189.75 per share in ordinary transactions executed during the trading session on the Warsaw Stock Exchange on November 18th 2015.

On December 1st 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of

the Act on Trading in Financial Instruments, of his sale of 5,000 KRUK S.A. shares at the average price of PLN 189.74 per share in ordinary transactions executed during the trading session on the Warsaw Stock Exchange on November 26th 2015.

In addition, after the reporting date, on February 25th 2016 the Company received a notification from Ms Urszula Okarma of her acquisition of 16,130 Series E shares in the Company. According to the notification, the shares were acquired on February 25th 2016, when 16,130 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 16,130 Series D subscription warrants issued as part of an incentive

Table 37. KRUK S.A. shares held by Management Board members as at March 6th 2016

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,016,927	2,016,927
Agnieszka Kułton	Member of the Management Board	62,741	62,741
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	41,000	41,000
Michał Zasępa	Member of the Management Board	26,306	26,306

Source: the Company.

Table 38. Contracts with Members of the Management Board of KRUK S.A.

Name and surname	Position	Effective date of the contract
Piotr Krupa	CEO and President of the Management Board	March 19th 2012
Agnieszka Kułton	Member of the Management Board, Credit Management	March 19th 2012
Urszula Okarma	Member of the Management Board, Strategic Transactions and Customer Relations	March 19th 2012
Iwona Słomska	Member of the Management Board, Marketing, Public Relations and Human Resources	March 19th 2012
Michał Zasępa	Member of the Management Board, Finance	September 1st 2013

Source: the Company.

scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

Members of the management or supervisory bodies holding Company shares or rights to Company shares as at March 6th 2016 are presented in Table 37.

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

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

The Company has executed managerial or employment contracts with the following members of the Management Board, as presented in Table 38.

Ms Iwona Słomska, Member of the Management Board in charge of Marketing, Public Relations and Human Resources, is employed by the Company under an employment contract. The President of the Management Board and other members of the Management Board entered into managerial contracts with the Company for the duration of their mandates as members of the Management Board.

Under the executed contracts, the Management Board members are entitled to monthly remuneration in the amounts specified in the contracts. Irrespective of their salary, they may receive additional remuneration (a bonus) and discretionary bonuses. The decision on the award 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, in accordance with the terms of his contract.

Bonuses to the other members of the Management Board are paid:

- (i) for meeting personal targets set for each financial year on the basis of the Company's financial plan for the given financial year, in the amount specified in the relevant contract, and
- (ii) for performance of the Company's financial plan for the given financial year, in the amount specified in the relevant contract, based on the percentage of the plan performance.

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. Managerial contracts may also be terminated by its parties without notice in circumstances indicated in the contracts.

Table 39. Remuneration of the Management Board members in 2015

Name and surname	Remuneration from the Company for 2015	Additional benefits* from the Company for 2015	Remuneration from the subsidiaries for 2015	Additional benefits* from the subsidiaries for 2015
	(PLN '000)			
Piotr Krupa	701	6.30	–	–
Agnieszka Kułton	366	6.25	10.72	–
Urszula Okarma	366	5.17	18	–
Iwona Słomska	318	5.23	–	–
Michał Zasępa	411	69.51	–	–

* Additional benefits include medical care, company cars and third-party liability insurance for Management Board Members.
Source: the Company.

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 2 (two) years from the day on which a given person ceases to be a member of the Management Board of KRUK S.A. The contracts with the Management Board members (excluding the President of the Management Board) provide for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date and amounts to 40% of the person's remuneration (12 months and 25% of the remuneration in the case of the Member of the Management Board in charge of Marketing, Public Relations and Human Resources).

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.

The Table 39. below presents the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2015) from the Company and its subsidiaries for 2015.

The total value of remuneration and additional benefits for 2015 paid by the Company and the subsidiaries to the Management Board members specified above was PLN 2,190.72 thousand and PLN 92.46 thousand, respectively.

Additional benefits received from the Company for 2015 do not include bonuses and awards for the Management Board members for 2015. The bonuses will be paid in 2016, in the amount reflecting the performance of the Company's financial plan, and – in the case of the discretionary bonuses – in an amount

determined by the Supervisory Board. The Company recognised a PLN 2.3m provision for this purpose. In addition, in accordance with the Supervisory Board's resolutions of July 20th 2012, August 5th 2013, and June 12th 2014, passed under the Company's Incentive Scheme for 2011–2014 for the key members of the management staff of the Company and other Group companies, the Supervisory Board granted the Management Board Members (excluding the President) subscription warrants conferring the right to acquire KRUK S.A. shares.

Moreover, as part of the 2015–2019 Stock Option Plan, members of the Management Board will be offered subscription warrants in the number specified in Management Board's Resolution No. 26/2014 and Supervisory Board's Resolution No. 31/2014, subject to fulfilment of certain conditions specified in General Meeting's Resolution No. 26/2014 of May 28th 2014.

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

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

5.3.2 | Supervisory Board

5.3.2.1 | Composition of the Supervisory Board, changes thereto and rules of appointment

The Supervisory Board is composed of five or seven members. The number of Supervisory Board members is each time determined by the General Meeting.

Table 40. Composition of the Supervisory Board of KRUK S.A. in 2015

Name and surname	Position
Piotr Stępnik	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Robert Koński	Member of the Supervisory Board
Józef Wancer	Member of the Supervisory Board

Source: the Company.

Members of the Supervisory Board are appointed for a joint term of office of three years. As at the date of approval of this report, the Company's Supervisory Board is composed of seven members.

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

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

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

From January 1st 2015 to December 31st 2015, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. is presented in Table 40.

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

5.3.2.2 | Operation 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;
- submission to the General Meeting of a written annual report on results of the review referred to in item 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 for the Company to contract loans or issue bonds, other than loans or bonds provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, with the exception of loans to be contracted with companies of the KRUK Group;
- granting consent to creating security, providing surety or creating other encumbrances over the Company's assets other than provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, unless only entities of the KRUK Group are parties to the transaction. Consent of the Supervisory Board is not required to create security or provide surety in respect of loans and bonds which have been provided for in the budget or approved by the Supervisory Board;
- granting consent for the Company to contract liabilities under a single transaction or a series of related transactions with a total value in excess of the equivalent of 5% of the Company's equity in a given financial year, other than liabilities provided for in the budget or arising in the Company's ordinary course of business;
- granting consent to the Company acquiring or subscribing for shares in other commercial companies or joining other businesses which are not KRUK Group entities;
- granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen percent) of the Company's net book value as determined on the basis of the last audited financial statements, other than any acquisition or disposal provided for in the budget, and except for any acquisition or disposal of assets from or to entities of the KRUK Group;
- granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks, unless only entities of the KRUK Group are parties to the transaction;
- 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 (five hundred thousand zloty);
- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's full-year financial statements, referred to in Article

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 1m (one million złoty) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary, to the extent such disposals or commitments are outside the scope of the Company's business, in an amount exceeding PLN 200,000 (two hundred thousand złoty) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to the purchase or disposal of property, perpetual usufruct rights or interests in property by the Company, excluding property purchased or sold as part of debt management.

Meetings of the Supervisory Board are convened by its Chairperson or, if absent, by the Deputy Chairperson. The Rules of Procedure for the Supervisory Board define the detailed rules for its meetings.

Supervisory Board resolutions are passed with an absolute majority of voting rights 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.

5.3.2.3

Shares in the Company or in the Company's subsidiaries held by members of the Supervisory Board

As at December 31st 2015, Mr Tomasz Bieske held 5,680 shares in the Company. By the date of this report, on January 8th 2016, the Company received

a notification from Mr Tomasz Bieske, Member of the Supervisory Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Bieske had sold 5,038 KRUK S.A. shares in ordinary transactions executed during trading sessions on the Warsaw Stock Exchange.

As at the date of issue of this report, Mr Bieske held no other rights to KRUK S.A. shares.

To the best of the Company's knowledge, other Supervisory Board members did not hold any Company shares or rights to Company shares in the period from the issue of the previous annual report (for 2014) to the date of this report.

5.3.2.4

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 amount of remuneration payable to the members of the Supervisory Board is determined by virtue of a resolution of the General Meeting.

Table 41. presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2015) from the Company and its subsidiaries for 2015.

Table 41. Remuneration of the Supervisory Board members in 2015

Name and surname	Remuneration from the Company for 2015 (PLN '000)
Piotr Stępnia	167.4
Krzysztof Kawalec	83.7
Katarzyna Beuch	83.7
Tomasz Bieske	83.7
Robert Koński	83.7
Arkadiusz Jastrzębski	83.7
Józef Wancer	201.2*

* Remuneration payable in EUR. The amount is the PLN equivalent of EUR 48 thousand, as translated at the exchange rate quoted by the NBP for the day preceding the payment day.

Source: the Company.

The total remuneration received from the Company by the Supervisory Board members named above for 2015 amounted to PLN 787.17 thousand. The amount includes the remuneration payable in the euro, translated into the zloty at the exchange rate quoted by the NBP for the day preceding the payment day.

In 2015, neither the Company nor its subsidiaries paid any additional benefits to members of the Supervisory Board.

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

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

5.3.2.5 | Supervisory Board Committees

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

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

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

Audit Committee

Pursuant to the Rules of Procedure for the Supervisory Board, the Audit Committee consists 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 (Dz. U. of 2009, No. 77, item 649, as amended).

The Audit Committee's responsibilities include in particular:

- monitoring of financial reporting processes;
- monitoring of the effectiveness of the internal control, internal audit and risk management systems;
- monitoring of the financial audit function;
- monitoring of the independence of the auditor and the auditing firm;
- review of the Company's financial statements and presentation of opinions on the financial statements to the Supervisory Board;
- review of related-party transactions;
- recommendation of an auditor to the Supervisory Board and presentation of grounds for the recommendation.

In the period January 1st – December 31st 2015, the Audit Committee consisted of:

- Katarzyna Beuch – Chairperson of the Audit Committee;
- Arkadiusz Jastrzębski – Member of the Audit Committee;
- Piotr Stępiak – Member of the Audit Committee.

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

Apart from the statutory duties, in 2015 the Audit Committee dealt with the following:

- summary of the results of the audit of the 2014 full-year report and rules of the audit of the financial statements for 2015;
- results of the review of the interim financial statements;
- discussion and analysis of financial reporting processes and the Company's communication with the market;
- discussion and analysis of changes in the accounting policy;
- discussion and analysis of changes in tax legislation in 2016 and their possible impact on the Company's and Group's business;
- internal audit at the Group.

Remuneration and Appointment Committee

The Remuneration and Appointment Committee is composed of at least three members, including at least one member with expertise and experience in

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

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

the area of remuneration policy; the Remuneration and Appointment Committee should mostly include independent Supervisory Board members.

The Remuneration and Appointment Committee's responsibilities include in particular:

- planning of the remuneration policy for the Management Board members;
- alignment of the Management Board members' remuneration with the Company's long-term interests and its financial performance;
- recommendation of candidates to the Management Board to the Supervisory Board;
- periodic assessment of the structure, number of members, composition and performance of the Management Board, and, where needed, recommendation of changes in this respect to the Supervisory Board, and submission of a periodic assessment of the skills, expertise and experience of the individual Management Board members to the Supervisory Board.

In the period January 1st – December 31st 2015, the Remuneration and Appointment Committee consisted of:

- Robert Koński – Chairman of the Remuneration and Appointment Committee;
- Piotr Stępnia – Member of the Remuneration and Appointment Committee;
- Józef Wancer – Member of the Remuneration and Appointment Committee.

By the date of issue of this report, the composition of the Remuneration and Appointment Committee did not change.

In 2015, the tasks of the Committee included issuing opinions on remuneration and bonuses for the Company's Management Board and changes to the list of persons eligible to participate in the Stock Option Plan for 2015–2019. The matters within the powers of the Remuneration and Appointment Committee were discussed during the Committee's meetings and Supervisory Board meetings.

Finance and Budget Committee

Pursuant to the Rules of Procedure for the Supervisory Board, the Finance and Budget Committee consists of two to four Supervisory Board members.

In the period January 1st – December 31st 2015, the Finance and Budget Committee consisted of:

- Tomasz Bieske – Chairman of the Finance and Budget Committee;
- Krzysztof Kawalec – Member of the Finance and Budget Committee;

- Piotr Stępnia – Member of the Finance and Budget Committee.

By the date of issue of this report, the composition of the Finance and Budget Committee did not change.

The Finance and Budget Committee's responsibilities include in particular:

- drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board on matters related to the Company's finances;
- supporting the oversight of the performance of the Company's budget;
- on-going analysis of the Company's financial performance and standing;
- 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 2015, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets. The matters within the powers of the Finance and Budget Committee were discussed during the Committee's meetings and Supervisory Board meetings.

5.3.3 | General Meeting

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

The General Meeting may be held as the Annual or an Extraordinary General Meeting. 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 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. 400.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that 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 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 for the General Meeting and the Rules of Procedure for 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 passed 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.

5.4 | Rules governing amendments to the Company's Articles of Association

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

5.5

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

The Group has in place an adequate and effective internal audit system in the form of an internal organisational unit, which ensures safe operations compliant with applicable laws, adopted strategy and internal procedures. The audit and security system focuses on periodical inspections of the mechanisms in place in order to detect risks and irregularities. Audit reports are provided to the Management Board of the Company.

To eliminate risks related to the preparation of financial statements, 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.



Valletta – whole year of Holiday



Other information

- Performance of Company shares on the Warsaw Stock Exchange
- Investor Relations in 2015
- CSR policy
- Glossary of terms

6 | Other information

6.1 | Performance of Company shares on the Warsaw Stock Exchange

6.1.1 | Share price

In 2015, the rate of return on KRUK S.A. shares was 61%. In the same period, the broad market WIG index lost 10%, while mWIG40, an index of mid-cap companies, rose 2% (KRUK S.A. shares are a constituent of mWIG40). From the beginning of 2015, the price of KRUK shares substantially followed an upward trend, underpinned by good prospects for the debt collection

industry, the Company's strong performance, and positive recommendations issued by analysts.

In 2015, the Company's market capitalisation exceeded PLN 3bn, and in November 2015, at the close of trading, the market price hit its maximum of PLN 191.25, to close the year at PLN 174.00.

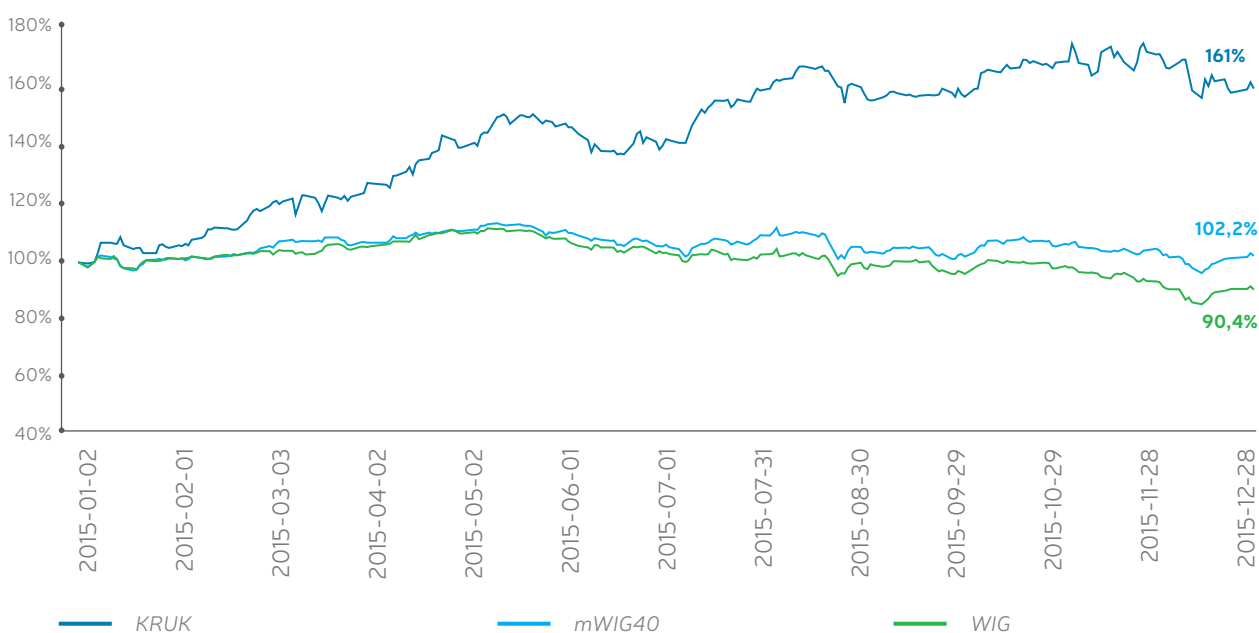
In the period from the Company's IPO on the Warsaw Stock Exchange in May 2011 to the end of 2015, the Company stock returned 338%. Over the same period, the WIG index, capturing the performance of

Table 42. Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2015

Date	KRUK	WIG	mWIG40
Jan 1 2015	108.34	51,378.00	3,488.94
Dec 30 2015	174.00	46,467.38	3,567.05
rate of return	60.6%	-9.6%	2.2%

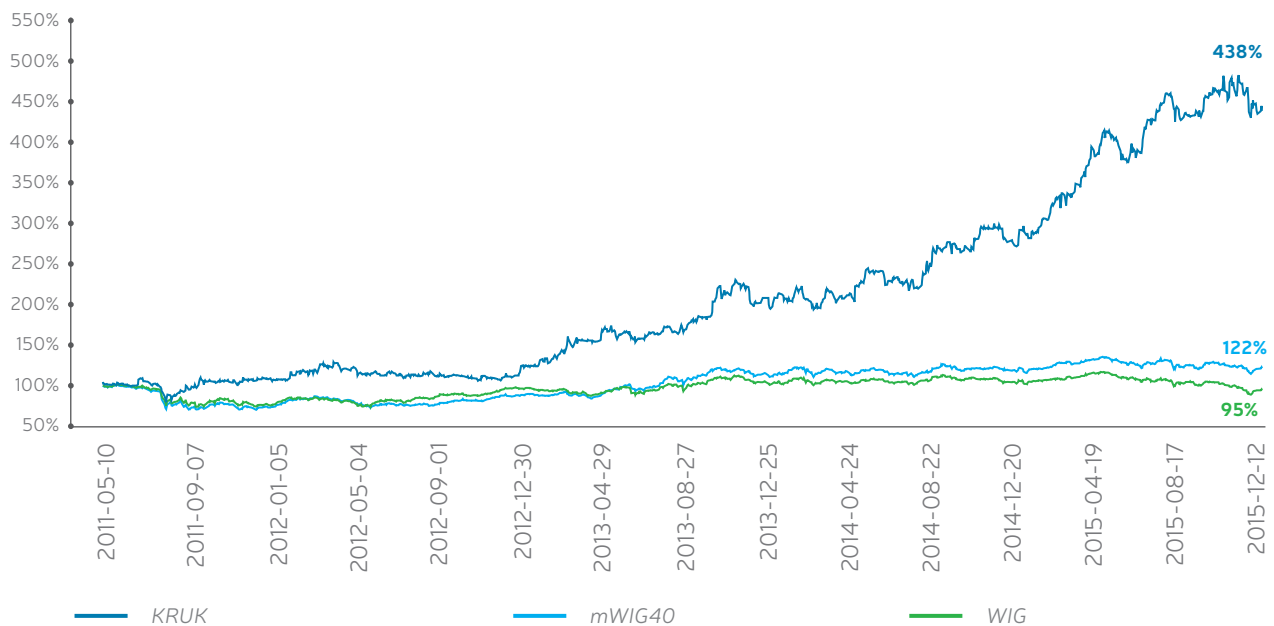
Closing prices
Source: stooq.pl

Chart 6. KRUK S.A. stock price against WIG and mWIG40 in 2015 (beginning of the year = 100%)



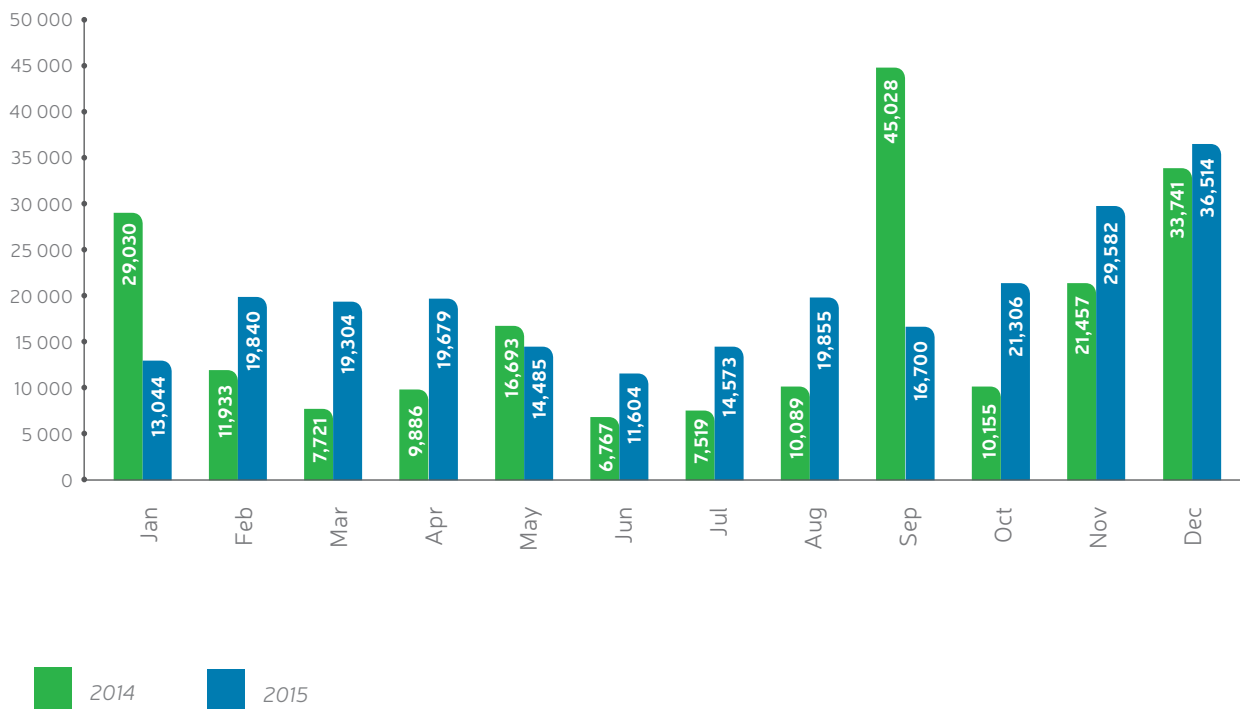
Source: in-house analysis, based on stooq.pl

Chart 7. Performance of KRUK S.A. stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of 2015



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

Chart 8. Average daily trading volume of KRUK S.A. shares in 2014 and 2015, by month



Source: in-house analysis, based on www.gpw.pl

the entire WSE market, gained 22%, and the mWIG40 index, showing trends in mid-cap stocks, went down by 5%.

6.1.2 | Liquidity

The total volume of KRUK S.A. shares traded in 2015 was 4.9m, which represents 28.3% of the Company's share capital. The average number of KRUK S.A. shares traded daily was 19,599, up 12.4% on the 2014 figure of 17,436. The largest trading volumes were recorded directly after the publication of the Company's results and in the period October–December 2015. In December 2015, KRUK was included in the prestigious MSCI Poland Small Cap index, including the most liquid companies on the Polish market..

6.2 | Investor Relations in 2015

The Company pursues an active Investor Relations policy and identifies the following addressees of the policy:

- Polish institutional stock and bond investors;
- Polish retail stock and bond investors;
- foreign institutional stock investors;
- brokerage house and investor bank analysts; and
- financial journalists.

Investor Relations initiatives improve brand recognition and stimulate interest in the Company among domestic and foreign investors, who provide us with positive feedback. In addition, such efforts enhance knowledge of the Company among those investors who maintain regular contact with KRUK. Owing to these efforts, market analysts and investors named the Company Listed Company of the Year 2014 in the ranking organised by the Puls Biznesu daily. The Company was also granted an international CEE Capital Markets Award in the Top Performing category. For more information on key Investor Relations activities in 2015, see Table 43.

Polish institutional stock and bond investors

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015.
- Participation in the CC Group Small & MidCap Conference in Warsaw, March 2015.
- Participation in the Wood Emerging Europe Financials Conference in Warsaw, June 2015.
- Participation in the ING Financial Conference in October 2015.
- Mailing to investors on material events at the Company.
- Continuous contact with investors.

Polish retail stock and bond investors

- Online chat with Management Board members organised in cooperation with the Polish Association of Retail Investors.
- Participation in the Wall Street 19 conference organised by the Polish Association of Retail Investors in May 2015.
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website.
- Continuous contact with investors.

Foreign institutional stock investors

- Four teleconferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015.
- Four non-transaction roadshows in London, Frankfurt, Stockholm, New York, Boston, Chicago and Miami.
- Participation in the Polish Capital Market – London 2015 conference organised by PKO BP.
- Participation in the Poland Capital Markets Day – New York conference organised by Auerbach and IPOPEMA.
- Participation in the Erste Group Investor Conference 2015 – Stegersbach.

Table 43. Key Investor Relations activities in 2015

	Number of non-deal roadshows	Number of investor conferences	Duration of roadshows and investor conferences, in days
Poland	4	4	9
Foreign markets	4	5	15

Source: in-house analysis.

- Participation in the Polish Capital Markets Day – Paris conference organised by Societe Generale.
- Participation in WOOD's Winter in Prague Emerging Europe Conference 2015.
- Mailing to investors on material events at the Company.
- Continuous contact with investors.

Brokerage house and investor bank analysts

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015.
- Mailing to investors on material events at the Company.
- Continuous contact with analysts.

The Table 44. lists analysts issuing recommendations on Company stock.

Including updates, the Company received nine recommendations from analysts in 2015, of which six were BUY recommendations and the other three were HOLD recommendations.

Financial journalists

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015.
- Press releases concerning key corporate events.
- Interviews and comments by Company representatives in financial media (e.g. Parkiet, Puls Biznesu, Stockwatch or Forbes).
- Maintaining the Company's profile on Stockwatch.

The key themes of the Company's 2015 market communication included:

- Communication of the new growth strategy for 2015–2019, including development of the product range and geographical expansion.
- Recommendation and payment of dividend of PLN 1.5 per share – the first dividend distribution since the Company's stock exchange debut.
- Purchase of the first debt portfolio on the German market.
- Entering two new markets in Europe – Italy and Germany.
- Purchase of the first debt portfolio on the Italian market.

Table 44. Sell-side analysts issuing recommendations on Company stock

Company	Analyst	Kontakt
DI Investors	Michał Fidelus	michal.fidelus@investors.pl
DM BDM	Maciej Bobrowski	bobrowski@bdm.pl
DM BZ WBK	Dariusz Górski	dariusz.gorski@bzwbk.pl
Erste	Adam Rzepecki	adam.rzepecki@erstegroup.com
Haitong	Łukasz Jańczak	ljanczak@haitongib.pl
Ipopema	Iza Rokicka	rokicka@ipopema.pl
mBank	Michał Konarski	michal.konarski@dibre.com.pl
Trigon DM	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Wood & Co.	Paweł Wilczyński	pawel.wilczynski@wood.com

Source: in-house analysis.

Table 45. Number of recommendations in 2015

Number of recommendations in 2015:		
9		
BUY* 6	HOLD 3	SELL 0

Source: in-house analysis.

- Execution of an agreement with the PRESCO Group to purchase its Polish debt portfolio with a nominal value of PLN 2.7bn.
- Improved liquidity of the Company's stock on the Warsaw Stock Exchange (trading volume up 12% year on year) and inclusion in the MSCI Poland Small Cap index. The Company currently uses the services of three market makers on the WSE.

6.3 | CSR policy

As KRUK is not a production company, the overview presented below does not address any of the issues traditionally associated with corporate social responsibility, such as environmental protection. However, the Company boasts certain socially relevant initiatives, both on a small scale (intended to benefit its employees) and with a wider reach (regional or – as in the case of support for financial education – nationwide).

6.3.1 | Charitable sponsorship

Within the scope of the KRUK Group's charitable activities, defined in the Sponsorship Policy, the Group provides material and financial assistance to non-profit organisations, as well as to clients, the KRUK Group's employees and their families. Our driving force in this area is the willingness to help in a selfless and charitable manner. The KRUK Group supports initiatives which fulfil and build on our motto ("Your Finance in Good Shape"), sending the following message: not only "Your Finance in Good Shape", but your health, well being and physical fitness as well. We promote active and healthy lifestyles. We also focus on educational initiatives and initiatives promoting the knowledge of finance. We strive to achieve that objective on all markets on which the KRUK Group operates. The Group has for years been building transparent and ethical relations with its clients, investors, trading partners, suppliers and employees, while encouraging others to participate in charitable initiatives.

6.3.2 | Educational initiatives

The key message of the KRUK Group's educational initiatives is to make the public aware of the fact that indebtedness can happen to anybody. More often than not, individuals are faced with it unexpectedly, and it is important that they be able to cope. The project is also aimed at educating the Polish, Romanian, Czech, Slovak and German people about debt, ways to manage household budgets and methods of dealing with financial problems, while giving them a general

understanding of the financial market. Educational projects are undertaken by the KRUK Group on its own or jointly with social partners (associations and organisations which seek to promote consumer education) in all countries where the Group operates.

6.3.3 | Articles and guides

The KRUK Group writes and distributes (to nationwide, local and thematic media) advice articles on the issue of indebtedness, which describe potential consequences of default and ways of dealing with debt.

As part of such educational efforts, guides are also prepared containing tips and advice for the indebted. The guides have been published in lifestyle magazines and many other self-help titles. They explored how people fall into a debt spiral and explained steps to be taken after receiving a letter from a debt management firm, the ways to reach an agreement with the creditor, and consequences of failure to repay debt. Responsible attitude to taking on and dealing with debt has also been the subject of a number of TV and radio programmes in which KRUK Group representatives appeared as guests. KRUK has also created the "Dobry Plan" (Good Plan) campaign and prepared a guide with advice for the indebted. Through these media, people who have successfully dealt with indebtedness can share their experience and give advice to those still facing the problem.

6.3.4 | "Day without Debts" and "Our Debts"

The initiative is to remind people living in the countries where the Group operates that they should not put off solving problems related to debt repayment. 'Day without Debt' is held annually on November 17th in Poland and Romania and on November 15th in the Czech Republic and Slovakia. The naszedlugi.pl site contains advice for debtors, explains how to borrow responsibly, and presents the findings of research into the issue of debt. The website also provides a household budget calculator, which helps to calculate monthly spending and estimate whether we can afford to borrow more, while showing where to find extra money to pay off debts.

6.3.5 | Active support for voluntary blood donation

For several years now, the Group has partnered with the Regional Centre for Blood Donation and Haemotherapy (RCKiK) in Wrocław and Wałbrzych. In partnership with those institutions, KRUK organises regular blood donor sessions among its employees. KRUK also supports public blood donor sessions

coordinated by the Centre, especially during periods of peak demand for blood.

6.3.6 | Organisation of free first aid courses for employees

KRUK regularly provides its staff with first aid training through regular practical courses and demonstrations of medical rescue techniques using modern equipment. In this way, the KRUK Group employees have an opportunity to learn various methods of administering first aid in accordance with the latest guidelines of the European Resuscitation Council. As part of several professional training rounds, a few dozen participants have undergone a two-day training course followed by an exam, and received a certificate confirming completion of the course.

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

At its offices in Wrocław and Szczawno-Zdrój, KRUK has placed three defibrillators, which can save life before an ambulance arrives. Our employees have been trained in how to use 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.

6.3.8 | Encouraging and supporting employees to engage in charitable work

Employees of the KRUK Group, including the Company's employees, have also been undertaking charitable activities on their own. The Company supports its employees in the organisation and technical implementation of the undertaken projects.

Since 2013, the Group has been the main sponsor of the Corporate Run (Bieg Firmowy), a 4 x 5 km relay race for the employees of the companies engaged in the event. To date, KRUK has sponsored three Bieg Firmowy events.

6.3.9 | Diversity Charter and Policy

In 2013, KRUK joined the signatories of the Diversity Charter, an international initiative promoted by the European Commission and implemented in EU countries including Poland, France, Spain, Italy, Austria, Germany, Sweden, Belgium, Ireland, Finland, Estonia and Luxembourg. The Diversity Charter is a written commitment by an organisation to eliminate discrimination in the workplace and work towards creating and fostering diversity. It also expresses a company's willingness to involve all its employees and social partners in these activities. By implementing this tool, an organisation commits to work towards social cohesion and equality. The KRUK Group has a Diversity Policy in place.

CSR policy:

- Charitable sponsorship
- Educational initiatives
- Articles and guides
- "Day without Debts" and "Our Debts"
- Active support for voluntary blood donation
- Organisation of free first aid courses for employees
- Purchase and installation of life-saving defibrillators at the Company's offices
- Encouraging and supporting employees to engage in charitable work
- Diversity Charter and Policy.

6.4 | Glossary of terms

Auditor	Ernst & Young Audyt Polska Sp. z o.o. sp. k., Rondo ONZ 1, 00-124 Warsaw. Poland, Reg. No. 130 – the Company's auditor
CAGR	Cumulative Average Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	EBITDA less revenue from purchased portfolios plus recoveries from purchased portfolios
EPS	Net earnings per share
EUR	Euro
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
The Group, the Kruk Group	The Company as the Parent along with its subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
ItaCapital	ItaCapital S.r.l of Milan, Italy
Second Public Bond Issue Programme	The Second Public Bond Issue Programme carried out under the prospectus approved by the Polish Financial Supervision Authority on December 22nd 2014
RAVEN Law Firm	Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
Kruk Česká a Slovenská republika	Kruk Česká a Slovenská republika s.r.o. of Hradec Králové
Kruk España	Kruk España S.L. of Madrid, Spain
Kruk Italia	Kruk Italia S.r.l of Milan, Italy
Kruk România	Kruk România SRL of Bucharest, Romania
Kruk TFI	Kruk Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF Business Solutions	ERIF Business Solutions Sp. z o.o. of Wrocław
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards as endorsed by the European Union, which include International Accounting Standards, International Financial Reporting Standards and related interpretations to be used in the European Union
NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, Prokulus NS FIZ

GDP	Gross Domestic Product
PLN	Polish złoty
UOKiK President	President of the Office of Competition and Consumer Protection
Incentive Scheme	An incentive scheme for 2011–2014 implemented by the Company for the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase.
2015–2019 Incentive Scheme	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase.
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)
Prokulus NS FIZ	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)
Supervisory Board	The Company's Supervisory Board
ERIF	Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw
ROE	Return on Equity, computed as the ratio of consolidated net profit to equity as at the end of period
RON	Romanian leu
Regulation on current and periodic information	The Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 209, item 1744, as amended)
SeCapital Luksemburg	SeCapital S.à r.l. (Luxembourg)
Secapital Polska	Secapital Polska Sp. z o.o. of Warsaw
Consolidated Financial Statements	The Group's consolidated financial statements for the reporting period ended December 31st 2015, prepared in accordance with the IFRS
The Company; KRUK; the Issuer	KRUK S.A. of Wrocław
Subsidiaries	The Company's subsidiaries, as defined in the Polish Accountancy Act, and Kancelaria Prawna RAVEN
Articles of Association	The Company's Articles of Association
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
USD	US dollar
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board

Signatures of Management Board Members

The Directors' Report on the operations of the KRUK Group in 2015 is presented by the Company's Management Board, composed of the following members:

Piotr Krupa

President of the Management Board



Urszula Okarma

Member of the Management Board



Agnieszka Kulon

Member of the Management Board



Iwona Stomska

Member of the Management Board



Michał Zasępa

Member of the Management Board



Wrocław, 26th February 2016



KRUK Group
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