



KRUK S.A.

Your finances  
in good shape



**DIRECTORS' REPORT ON THE  
OPERATIONS OF THE KRUK S.A.  
IN 2011**

## TABLE OF CONTENTS:

<b>1</b>	<b>GENERAL INFORMATION ABOUT THE COMPANY</b> .....	<b>4</b>
1.1	OVERVIEW OF THE COMPANY .....	4
1.2	BUSINESS MODEL .....	4
1.3	FINANCIAL HIGHLIGHTS FOR 2011 .....	4
<b>2</b>	<b>MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS AFFECTING THE COMPANY'S BUSINESS</b> .....	<b>5</b>
2.1	STRUCTURE AND DESCRIPTION OF THE DEBT COLLECTION MARKET .....	5
2.2	LEGAL AND REGULATORY ENVIRONMENT .....	5
<b>3</b>	<b>OVERVIEW OF THE COMPANY'S BUSINESS</b> .....	<b>6</b>
3.1	THE COMPANY'S BUSINESS AND BRANCHES .....	6
3.2	ORGANISATIONAL STRUCTURE .....	6
3.3	CHANGES IN THE STRUCTURE OF THE COMPANY'S GROUP .....	7
3.4	CHANGES IN THE SIGNIFICANT MANAGEMENT POLICIES OF THE COMPANY AND THE KRUK GROUP.....	7
3.5	SHARE CAPITAL .....	8
3.6	THE COMPANY'S SERVICES AND PRODUCTS .....	8
3.7	USE OF PROCEEDS FROM THE PUBLIC OFFERING OF KRUK S.A. SHARES.....	10
3.8	MATERIAL EVENTS WITH A BEARING ON THE COMPANY'S OPERATIONS DURING THE FINANCIAL YEAR .....	10
3.9	NON-RECURRING FACTORS AND EVENTS .....	11
3.10	IMPORTANT EVENTS AFTER DECEMBER 31ST 2011 .....	11
3.11	AGREEMENTS EXECUTED BY THE COMPANY .....	12
3.12	DEVELOPMENT DIRECTIONS AND PROSPECTS OF THE COMPANY.....	17
3.13	INVESTMENT PROGRAMME .....	18
3.14	RISK FACTORS – INTERNAL FACTORS .....	19
<b>4</b>	<b>OPERATIONAL AND FINANCIAL REVIEW</b> .....	<b>22</b>
4.1	PRINCIPLES APPLIED IN THE PREPARATION OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS .....	22
4.2	GENERAL INFORMATION ABOUT THE CURRENT AND EXPECTED FINANCIAL POSITION .....	22
4.3	REVENUE BY PRODUCT .....	22
4.4	GEOGRAPHICAL STRUCTURE OF SALES.....	23
4.5	STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	23
4.6	CASH FLOWS.....	25
4.7	MATERIAL OFF-BALANCE SHEET ITEMS BY COUNTERPARTY, SUBJECT MATTER AND VALUE .....	25
4.8	FINANCIAL RATIOS.....	25
4.9	EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL PERFORMANCE AND PREVIOUSLY PUBLISHED FORECASTS .....	25
4.10	FINANCIAL INSTRUMENTS.....	25
<b>5</b>	<b>CORPORATE GOVERNANCE</b> .....	<b>27</b>
5.1	STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS .....	27
5.2	SHAREHOLDER STRUCTURE .....	28
5.6	RULES GOVERNING AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION .....	39
5.7	KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PROCESS OF	
<b>6</b>	<b>OTHER INFORMATION</b> .....	<b>39</b>
6.1	COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS .....	39

6.2	AUDITORS .....	40
6.3	MAJOR RESEARCH AND DEVELOPMENT ACHIEVEMENTS.....	40
6.4	ENVIRONMENTAL MATTERS .....	40
6.5	COMPANY SHARES ON THE WARSAW STOCK EXCHANGE.....	41
6.6	CSR POLICY .....	42
6.7	AWARDS AND DISTINCTIONS.....	43
6.8	GLOSSARY OF TERMS.....	44

# 1 GENERAL INFORMATION ABOUT THE COMPANY

## 1.1 Overview of the Company

### Form of incorporation of the Company

KRUK S.A. (the “Company”) is a joint-stock company with registered office in Wrocław, Poland. The Company is a parent of the KRUK Group (the “KRUK Group”).

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 it was entered in the National Court Register – Register of Entrepreneurs by the District Court for Wrocław Fabryczna of Wrocław, 6th Commercial Division of the National Court Register, under entry No. KRS 0000240829.

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

### Contact details of the Company

Name: KRUK SPÓŁKA AKCYJNA

Registered address: ul. Legnicka 56, 54-204 Wrocław, Poland

Telephone: (+4871) 79 02 800

Fax: (+4871) 79 02 867

Website address: [www.kruk.sa.pl](http://www.kruk.sa.pl)

## 1.2 Business model

KRUK S.A. is a parent of the KRUK Group. A comprehensive overview of the Group’s activities and sources of revenue is presented in the Director’s Report on the Operations of the KRUK Group. In the Management Board’s opinion, reading this document is essential for proper and thorough assessment of the Company’s performance in 2011.

The Company’s operations are based on a successful business model, adopted across the entire Group. The Company is active both on the debt purchase and credit management segments of the debt collection market. Due to the nature of the debt collection industry (especially the operation of securitisation funds) and the wide range of services and activities performed by the KRUK Group (including in particular litigation-based debt collection and credit reference agency services), the Company’s standalone results do not reflect its actual performance. Only the analysis of the combined potential of the Company and its subsidiaries, taking into account the nature of their operations, gives a comprehensive picture of the Company’s business model and allows for proper assessment of its operating and financial results. The year 2011 was very successful for the KRUK Group, the leader of the debt collection market in Poland and Romania.

## 1.3 Financial highlights for 2011

KRUK S.A. is the parent of the KRUK Group and therefore, given the intra-Group organisational and business links, its financial and operating results should be assessed in the context of the Group’s overall performance. On a standalone basis, in 2011 KRUK S.A. posted net profit of PLN 517 thousand. As at the end of 2011, the Company’s total headcount was 916 staff.

### Company's selected historical financial data

	Period ended Dec 31		
	2011	2010	Change
	<i>(PLN '000, unless stated otherwise)</i>		
Revenue	82,221	65,287	26%
EBITDA	-14,735	-14,528	-1%
Operating profit (EBIT)	-19,211	-17,713	-8%
Net finance income	21,724	21,581	1%
Net profit for the period	517	4,274	-88%
Cash flows from operating activities	-15,178	13,827	-210%
Cash flows from investing activities	-346,798	-65,134	-432%
Cash flows from financing activities	363,490	49,987	627%
Total net cash flows	1,514	-1,320	215%
Total assets	649,719	215,581	201%
Equity	107,978	65,673	64%

Source: The Company.

## 2 MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS AFFECTING THE COMPANY'S BUSINESS

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

In 2011, KRUK S.A. focused its business primarily on the Polish market. The Company was also involved in debt portfolio purchases in Romania and the Czech Republic. During the year, KRUK S.A. operated both in the debt purchase segment and the credit management segment of the market, offering debt collection services to both customers and members of the KRUK Group. For a description of the debt collection market and its structure, and the presentation of the key factors affecting the Company's business, see the Director's Report on the operations of the KRUK Group.

### 2.2 Legal and regulatory environment

The operations of KRUK S.A. are governed by laws and regulations described in the sections below.

#### 2.2.1. Securitisation funds

KRUK S.A. provides debt collection services to securitisation funds (Prokura NS FIZ and Prokulus NS FIZ) under agreements for the management of securitised debt. The Company's performance under such agreements is subject to the PFSA's oversight. The Company has also obtained the PFSA's authorisation for the management of the securitised debt of a securitisation fund.

### **2.2.2. Detective services**

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

### **2.2.3. Outsourcing of debt collection by banks**

Pursuant to the 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 Company. Nonetheless, companies are subject to the PFSA's oversight with respect to the performance of such collection outsourcing agreements.

### **2.2.4. Personal data protection**

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

### **2.2.5. Change in consumer loan regulations**

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

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

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

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

## **3 OVERVIEW OF THE COMPANY'S BUSINESS**

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

The Company's core business is debt collection, including debt purchase and credit management services. The Company is advances loans to natural persons.

KRUK S.A. is the parent of the KRUK Group.

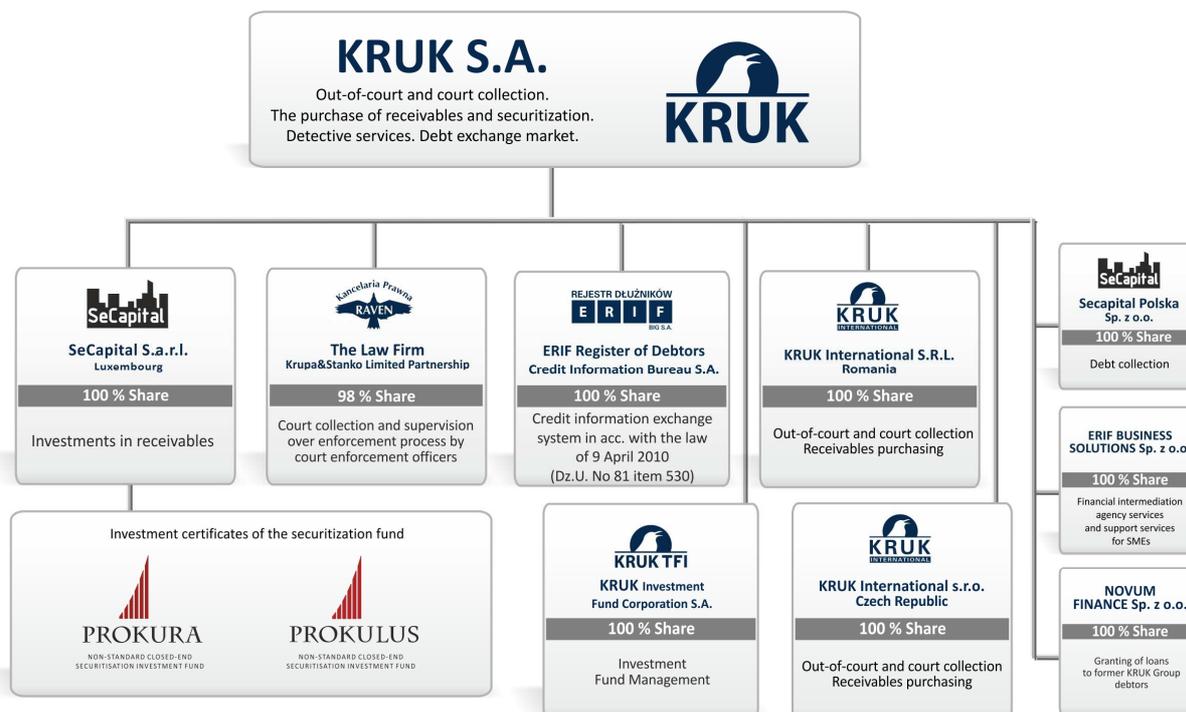
The Company has the following branches, registered by the National Court Register:

1. Poznań Branch, with registered office at ul. Hallera 6, 60-951 Poznań, Poland;
2. Warsaw Branch, with registered office at ul. Emaliowa 28, 02-295 Warsaw, Poland;
3. Kraków Branch, with registered office at ul. Płk. S. Dąbka 8/8, 30-732 Kraków, Poland;
4. Katowice Branch, with registered office at ul. Dulęby 5, 40-833 Katowice, Poland;
5. Bydgoszcz Branch, with registered office at ul. Fordońska 246/710, 85-766 Bydgoszcz, Poland;
6. Łódź Branch, with registered office at ul. Sienkiewicza 85/87, 90-057 Łódź, Poland;
7. Gdynia Branch, with registered office at ul. Janka Wiśniewskiego 20, suite P.305,306, 81-969 Gdynia, Poland;
8. Szczawno-Zdrój Branch, with registered office at ul. Szczawieńska 2, 58-310 Szczawno-Zdrój, Poland.

The branches do not keep separate accounting books.

### **3.2 Organisational structure**

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



As of February 15th 2012, Polski Rynek Długów Sp. z o.o. changed its name to Novum Finance Sp. z o.o.

### 3.3 Changes in the structure of the Company's Group

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

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

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

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

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

### 3.4 Changes in the significant management policies of the Company and the KRUK Group

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

### **3.5 Share capital**

#### **3.5.1 Share capital structure**

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

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

#### **3.5.2 Share capital increase**

Pursuant to Resolutions of December 9th 2010 and of January 21st 2011, on February 9th 2011, the District Court for Wrocław-Fabryczna in Wrocław registered the Company's share capital increase from PLN 15,308,820.00 to PLN 15,800,340.00, i.e. by PLN 491,520.00. The share capital increase was effected through the issue of 491,520 new Series C ordinary shares.

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

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

#### **Conditional share capital**

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

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

### **3.6 The Company's services and products**

Apart from purchasing debt portfolios for own account, KRUK has the most comprehensive and innovative debt management service offering in Poland. The Company's offers loss prevention services, debt collection services and other services (including primarily detective and specialist services). Unless indicated otherwise, all services discussed below were provided by the Company in the entire 2011.

#### ***Loss prevention services***

##### *Preventive monitoring*

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

##### *Detective investigation*

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

## ***Collection services***

### *Collection monitoring*

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

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

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

### *Doorstep debt collection*

The collection process may involve a field negotiator's visit or detective activities at a debtor's domicile or place of business. During a visit, the negotiator and debtor may agree upon the terms of debt repayment or settlement, and the negotiator may also collect cash or collateralised assets. Doorstep collection is effective for high-value and high-priority cases, e.g. where there is a suspicion that the debtor is hiding or disposing of their property. In 2011, this organisational unit gained a new mobile tool for on-line scheduling, managing and reporting, which considerably enhanced performance and safety of the debt-collection activities.

### *Repossession of collateralised assets*

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

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

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

### *Hybrid services using ERIF's Debt Register*

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

## ***Other services***

### *Electronic debt exchange*

The debt exchange has been developed by the Company to facilitate debt trading and create a register of defaulting counterparties. Through the e-debt exchange it is possible to enter the details concerning the debtor and debt in a generally accessible database of debt on sale. The e-debt exchange may be one of the elements of the collection process handled by the Company. If the debtor does not respond to demands, the debt may be placed on the e-debt exchange as an offer to sell. The Company follows the principle of not disclosing, and does not intend to disclose, natural persons' details through the electronic debt exchange.

### *e-KRUK*

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

The e-KRUK functionalities available to indebted persons include viewing the list of debts which the debtor owes to particular creditors, checking the debt service status, obtaining information on litigation and bailiff collection costs, entering into a fair settlement, convenient direct link to the bank's website to repay debt, an option to arrange for contact with a negotiator at a convenient time and possibility to quickly update contact details. The e-KRUK platform is available at [www.e-kruk.pl](http://www.e-kruk.pl).

### *The Pożyczka Novum loan service*

As part of the service, the Company grants short-term cash loans to former debtors who have a track record of repaying their liabilities to the Company in a timely manner. The service was designed with a view to putting persons excluded from the banking system due to their former debts and negative credit histories back into the economic system and rebuilding their creditworthiness. This new service is also intended to diversify the Company's revenue sources.

## **3.7 Use of proceeds from the public offering of KRUK S.A. shares**

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

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

The selling shareholder allotted a total of 8,200,000 of the Series AA shares, including:

- 930,000 shares in the retail offering,
- 7,270,000 shares in the institutional offering.

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

The issue price of the offered shares was set at PLN 39.70 per share. The value of the entire offering was PLN 369.2m, including PLN 43.7m of new issue shares. Total cost and expenses recognised as issue costs were PLN 3,594 thousand, including preparation and execution of the issue (PLN 437 thousand), preparation of the issue prospectus and cost of advisory services (PLN 2,857 thousand) and marketing of the offering (PLN 300 thousand). Of the total amount, PLN 823 thousand were disclosed in the Company's statement of comprehensive income, and the balance of PLN 2,771 thousand reduced the proceeds from the share issue.

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

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

One of the milestones in the Group's history was the Parent's debut on the Warsaw Stock Exchange on May 10th 2011, pursuant to Resolution No. 573/2011 of May 5th 2011 of the Management Board of the Warsaw Stock Exchange, concerning the admission of Series A, AA, B, C and D shares and allotment certificates for Series D ordinary bearer shares to trading on the WSE Main Market.

Then on November 16th 2011, the Parent's notes debuted on the Catalysts market. 21 thousand Series J1 and J2 notes with nominal value of PLN 21m were introduced to trading. By December 31st 2011, the Company introduced Series I1, I2 and I3 notes to the Catalyst market, with total nominal value of PLN 80m.

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

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

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

### 3.9 Non-recurring factors and events

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

### 3.10 Important events after December 31st 2011

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

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

In the terms and conditions of the issue of Series M<sup>1</sup> and Series N<sup>1</sup> notes, the Issuer undertook to maintain its **Debt Ratio** at up to 2.5, and the ratio of consolidated **Net financial debt /cash EBITDA** at a consolidated level of up to 4.0, where:

<b>Debt Ratio:</b>	Net financial debt to equity, where: (i) <b>Net financial debt</b> means the Group’s Financial liabilities less the Group’s cash and (ii) equity is the equity of the KRUK Group;
<b>Financial liabilities</b>	total financial liabilities under notes or other similar debt securities, borrowings, bank loans, financed lease, promissory notes issued, guarantees and sureties granted (to entities outside the Group), accession to debt or takeover of liabilities, or under derivative transactions;
<b>Cash EBITDA</b>	pre-tax profit (loss) increased by: finance expenses, depreciation and amortisation, cash inflows from revenue from debt purchase and reduced by income on the revaluation of assets other than purchased debt portfolios and consumer loans granted if their total value for the previous 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group, for the previous 12 months.

These ratios will be computed based on the Group’s consolidated financial statements prepared in accordance with the IFRS as at the end of each calendar quarter.

- On March 7th 2012, the Parent executed an annex to the revolving credit facility agreement concluded on April 8th 2011 with Bank Zachodni WBK S.A., whereby Bank Zachodni WBK S.A. granted to the Company a revolving credit facility of up to PLN 80,000,000 to refinance or finance debt purchases by the Parent and its subsidiaries. The execution of the annex was reported by the Company in its Current Report No. 7/2012, dated March 7th 2012. The subject matter of the annex is:
  - extension of the facility's maturity by 11 months, that is until February 28th 2015;
  - advance of a PLN 60,000 000 Supplementary Facility maturing on March 6th 2013.

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

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

### **3.11 Agreements executed by the Company**

#### **3.11.1 Material agreements**

The following agreements executed by KRUK S.A. in 2011 may be considered material:

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

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

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

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

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

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

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

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

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

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

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

#### **Debt assignment agreement between the Parent and Secapital S.à.r.l.**

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

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

Following the execution of a loan agreement between KRUK S.A. and its subsidiary KRUK International S.R.L. of Bucharest on December 8th 2011, the total net value of agreements executed between the Group companies and KRUK International S.R.L. in the period from May 5th 2011, i.e. the date KRUK shares were admitted to trading on the stock exchange, to December 8th 2011 was PLN 27.78m, thus exceeding 10% of the Group's revenue for the previous four financial quarters and satisfying the materiality criterion as at December 8th 2011 (the date of the current report). In terms of value, the largest of these agreements is a debt assignment agreement executed on September 19th 2011 by KRUK S.A. and KRUK International S.R.L. The agreement provides for the purchase by KRUK S.A. from KRUK International S.R.L. of a debt portfolio comprising 12,730 debt claims with a total nominal value of RON 93,788,043.02 (or PLN 96,582,926.70 translated at the RON mid-exchange rate quoted by the National Bank of Poland for December 8th 2011) for a price of PLN 9,323,445.91. The debt purchased under the agreement had been acquired by KRUK International S.R.L. from BRD – Groupe Société Générale S.A. (Current Report No. 77/2011 of December 8th 2011)

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

The Company did not execute any material related-party transactions on a non-arm's length basis. For description of related-party transactions, see the Company's Financial Statements for 2011.

#### **3.11.3 New and terminated loan or credit facility agreements**

#### **Credit facility agreement with Bank Zachodni WBK S.A.**

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

The facility is secured with a number of instruments, including a registered pledge and a financial pledge under Polish law, and a financial pledge under Luxembourg law, over Company's shares in its subsidiary, Secapital S.à.r.l. of Luxembourg. The pledge secures 77,784 category E shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 85,562,400. In performance of the agreement, on June 21st 2011, a first-priority pledge was established for the benefit of the Bank, through the entry in the share register, in accordance with the laws of Luxembourg. (Current Report No. 28/2011 of June 22nd 2011)

On September 7th 2011, the Company received a decision from the District Court in Wrocław, VII Commercial Division of the Pledge Register issued on August 31st 2011, on entering the pledge in the pledge register. (Current Report No. 47/2011 of September 8th 2011). The agreed repayment date is March 31st 2014. Following the execution of an annex on March 7th 2012, referred to in Section 3.12, the repayment date was extended until February 28th 2015.

## **Annex to a credit facility agreement with Bank Polskiej Spółdzielczości**

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

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

The facility is secured with a number of instruments, including registered pledge over 24,385 category D shares in Secapital S.a.r.l of Luxembourg (see Current Report No. 39/2011 of August 19th 2011), a registered pledge on certain debt portfolios held by the Company, and with sureties issued by subsidiaries, i.e. Secapital Polska Sp. z o.o., KRUK Corporate Sp. z o.o., Polski Rynek Długów Sp. z o.o., KRUK International S.R.L. The amount of surety issued by each of these entities is PLN 25m and covers facility interest, fees and other receivables of the Bank under the agreement. For information on the sureties see Current Report No. 35/2011 of July 27th 2011. The agreed repayment date is July 5th 2013.

## **Credit facility agreement with Raiffeisen Bank Polska S.A.**

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

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

### *Issue of debt securities*

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

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

#### Issue of series G<sup>2</sup> notes

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

#### Issue of series H<sup>1</sup> notes

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

#### Issue of series H<sup>2</sup> notes

Under the Management Board's resolutions of March 24th 2011 and April 7th 2011, the Company issued 15,000 notes with a par value of PLN 1,000 per note. The total value of the issue was PLN 15,000,000. The notes are due 36 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

#### Issue of series I<sup>1</sup> notes

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

#### Issue of series I<sup>2</sup> notes

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

#### Issue of series I<sup>3</sup> notes

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

#### Issue of series J<sup>1</sup> notes

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

#### Issue of series J<sup>2</sup> notes

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

#### Issue of series K<sup>1</sup> notes

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

#### Issue of series K<sup>2</sup> notes

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

#### Issue of series K<sup>3</sup> notes

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

#### Issue of series K<sup>4</sup> notes

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

#### Issue of series L<sup>1</sup> notes

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

#### Issue of series L<sup>2</sup> notes

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

#### ***Redemption of debt securities***

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

- a) 12,500 series F<sup>1</sup> notes at par value for a total amount of PLN 12,500,000. The redemption date was July 15th 2011.
- b) 17,500 series F<sup>2</sup> notes at par value for a total amount of PLN 17,500,000. The redemption date was September 2nd 2011.

#### ***Liabilities under debt securities***

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

### **3.11.4 Loans advanced and sureties granted. Sureties and guarantees received.**

#### ***Loans advanced by KRUK S.A. to subsidiaries***

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

#### **Loans advanced to KRUK International s.r.l. of Bucharest**

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

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

#### **Loans advanced to KRUK International s.r.o. of Prague**

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

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

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

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

## ***Guarantees***

### **Bank guarantee issued by Alior Bank S.A.**

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

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

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

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

### **Insurance guarantee issued by Towarzystwo Ubezpieczeń Europa S.A.**

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

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

## ***Sureties***

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

On July 26th 2011, the following subsidiaries: Secapital Polska Sp. z o.o., KRUK Corporate Sp. z o.o. (currently: ERIF Business Solutions Sp. z o.o.), PRD Sp. z o.o. (currently: Novum Finance Sp. z o.o.) executed an annex to the surety agreement concerning KRUK S.A.'s liabilities under the credit facility agreement concluded between KRUK S.A. and Bank Polskiej Spółdzielczości S.A. The annexes were executed following an increase of the revolving credit facility limit from PLN 10,000,000 to 25,000,000 under an annex to the credit facility agreement on July 26th 2011. The sureties issued by the subsidiaries expire upon full repayment of the credit facility with interest, fees and other receivables of the Bank under the credit facility agreement.

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

On July 26th 2011, KRUK International S.r.l. issued a surety with respect to KRUK S.A.'s liabilities under the revolving credit facility concluded with Bank Polskiej Spółdzielczości S.A. The surety covers liabilities up to PLN 25,000,000, including accrued interest, fees and other receivables of the Bank under the credit facility agreement. The surety issued by KRUK International S.r.l. expires upon full repayment of the credit facility, including interest, fees and other receivables of the Bank under the credit facility agreement.

## **3.12 Development directions and prospects of the Company**

The Company's development directions and prospects are directly related to the expansion of the KRUK Group.

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

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

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

### ***Maintaining the leading position on the Polish market***

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

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

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

*Enhancing competitive advantages in debt collection services through:*

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

*Building a strong market position in collection of corporate debt*

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

### ***Selective foreign expansion***

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

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

The objectives of the foreign expansion strategy are as follows:

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

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

### ***Development of new products***

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

#### *Continued implementation of the Novum project (Novum loans)*

The Company intends to use its database of debtors' credit history for the purposes of the Pożyczka Novum cash loan project. The loan is addressed to persons excluded from the banking market. As the date of the report, the Group had nearly two million retail debtor cases, including 989 thousand cases purchased in 2010–2011.

#### *Continued development of the ERIF resources*

ERIF, operating as a credit reference agency within the Group, provides significant support for the Group's collection activities. The Group's ambition is to create Poland's largest database of debtors, both consumers and businesses, as a platform for business information trading.

## **3.13 Investment programme**

### **3.13.1 Capital expenditure**

In 2011, capital expenditure incurred by the Company included primarily expenditure on vehicles (PLN 3,448 thousand) and computer hardware (PLN 2,324 thousand). The Company also made investments in licences and computer software (PLN 3,314 thousand), including proprietary software with a value of PLN 2,180 thousand.

### **3.13.2 Investments within the Group**

In 2011, the Company increased the share capital of KRUK International S.r.l.:

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

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

Capital expenditure is described in detail in the Company's Financial Statements for 2011 and the Group's Consolidated Financial Statements for 2011.

### **3.13.3 Assessment of the feasibility of investment plans**

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

## **3.14 Risk factors – internal factors**

### **3.14.1 Material risk factors**

#### **Risk of failure to achieve the Company's strategic objectives**

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

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

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

The core business of the Company includes purchase of debt portfolios for the Group's own account. If purchased debt portfolios do not generate expected cash flows over specified time horizons it may be necessary to make a downward revaluation of the portfolios. This risk applies in particular to debt portfolios purchased on new markets, where the Company has not invested before.

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

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

#### **Debt risk**

KRUK S.A. uses and intends to use in the future bank loans, notes and other debt instruments to finance purchases of debt portfolios. Moreover, the Company enters into lease arrangements to finance investments in property, plant and equipment. Any material deterioration in the Company's liquidity may result in the Company being unable to repay principal and interest or fulfil other obligations under the financing agreements it has concluded or under debt instruments in issue. If the Company fails to meet the terms of the loan agreements it has signed, the Company's 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 Company's assets.

### **Risk of losing experienced management staff**

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

Resignation of any Management Board member or other key employee could have an adverse effect on the Company's operations, and consequently on its financial performance and development prospects.

### **Risk of IT systems' failure**

A key asset of the Company and an element crucial for its market success are the modern technologies it applies, based on advanced IT systems, which facilitate a smooth execution of debt collection processes and valuation of debt portfolios. The systems used by the Company include the Delfin debt collection platform, a billing system, a Management Information System, a contact centre, the e-KRUK web service, and other. A potential loss of all or part of data due to failure of the computer systems used by the Group could have an adverse effect on day-to-day operations. The security of the IT systems is also important given the need to protect the personal data of debtors. Failure of any of the IT systems used by the Company or the occurrence of any of the above circumstances may have an adverse effect on the Company's operations.

### **Risk connected with related party transactions**

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

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

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

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

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

#### **3.14.2 Risk management system**

Risk management policies are designed to:

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

The risk management policies in place at the Company are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the 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 Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

#### ***Management of credit risk relating to debt purchase activities***

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

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

#### ***Management of credit (trade) risk***

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

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

- Assessment of each client's creditworthiness prior to offering payment dates and other terms of the agreement;
- Regular monitoring of payment timeliness;
- Diversification of the client base (in 2011, revenue from the Company's largest client represented 8.7% of total revenue).

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

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

#### ***Management of liquidity risk***

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

Liquidity risk management tools include:

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

#### ***Management of market risk***

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

#### ***Management of operating risk***

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

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

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

- Appropriate division of responsibilities and correct authorisation of transactions;
- Procedures for reconciliation, documentation and monitoring of transactions;

- Procedures for periodic assessment of operating risks and adaptation of the relevant monitoring and control methods;
- Requirements with respect to reporting on operating losses and proposed remedies.

## 4 OPERATIONAL AND FINANCIAL REVIEW

### 4.1 Principles applied in the preparation of annual consolidated financial statements

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

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

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

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

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

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

There are no material risks to the Company's and the Group's current and expected financial position. As KRUK S.A. is the Parent of the KRUK Group, its financial and operating results should be analysed in relation to the results of the entire Group. On a standalone basis, in 2011, the Company earned PLN 517 thousand net profit, which represented 12% of net profit for 2010. This decline was chiefly caused by the dynamic expansion of the Group's operations, which required significant debt capital. Consequently, interest expenses incurred in the period increased threefold relative to 2010.

### 4.3 Revenue by product

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

In 2011, the Company's total revenue was PLN 82.2m, 26% up on 2010. The main driver of this increase was the Company's organic growth, fuelled by the increase of investments in debt portfolios. As a consequence, revenue from debt purchase was PLN 29.9m, while revenue from credit management amounted to PLN 51.1m.

Each segment's performance is discussed below. The efficiency of each segment is assessed based on the segment's indirect margin.

<i>PLN '000</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Revenue</b>	<b>82,221</b>	<b>65,287</b>	<b>26%</b>
Purchased debt portfolios	29,934	13,111	128%
Collection services	51,154	51,273	0%
Other products	1,133	903	25%
<b>Direct and indirect costs</b>	<b>(62,302)</b>	<b>(56,492)</b>	<b>10%</b>

Purchased debt portfolios	(9,877)	(4,892)	102%
Collection services	(49,169)	(51,108)	-4%
Other products	(3,256)	(493)	560%
<b>Indirect margin</b>	<b>19,919</b>	<b>8,795</b>	<b>126%</b>
Purchased debt portfolios	20,057	8,219	144%
Collection services	1,985	165	1100%
Other products	(2,123)	410	-618%

Source: the Company

#### 4.4 Geographical structure of sales

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

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

<i>PLN '000</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Revenue</b>	<b>82,221</b>	<b>65,287</b>	<b>26%</b>
Poland	66,684	65,303	2%
Foreign markets	15,537	(16)	97009%
<b>Direct and indirect costs</b>	<b>(62,302)</b>	<b>(56,492)</b>	<b>10%</b>
Poland	(59,723)	(56,167)	6%
Foreign markets	(2,579)	(325)	694%
<b>Indirect margin</b>	<b>19,919</b>	<b>8,795</b>	<b>126%</b>
Poland	6,961	9,136	-24%
Foreign markets	12,958	(341)	3900%

Source: the Company

#### 4.5 Structure of assets and liabilities in the consolidated statement of financial position

<i>PLN '000</i>	<b>Dec 31 2011</b>	<b>Dec 31 2010</b>	<b>Change</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12,144	8,511	43%
Other intangible assets	6,385	4,796	33%
Investments in subsidiaries	483,235	133,008	263%
Deferred tax assets	1,671	3,007	-44%
<b>Total non-current assets</b>	<b>503,435</b>	<b>149,322</b>	<b>237%</b>
<b>Current assets</b>			
Inventories	393	377	4%

Current investments	106,566	24,454	336%
Trade receivables from related entities	12 599	18 001	-70%
Trade receivables from other entities	5 799	6 600	-12%
Other receivables	9 444	6 664	42%
Prepayments and accrued income	1,460	1,654	-12%
Cash and cash equivalents	10,023	8,509	18%
<b>Total current assets</b>	<b>146,284</b>	<b>66,259</b>	<b>121%</b>
<b>Total assets</b>	<b>649,719</b>	<b>215,581</b>	<b>201%</b>

Source: the Company

The largest increase in assets was recorded in Investments in subsidiaries (up by PLN 350 thousand), following the acquisition of interests in subsidiaries. Current investments also increased significantly (by PLN 82m) on the back of investments in debt purchases.

PLN '000

	<b>Dec 31 2011</b>	<b>Dec 31 2010</b>	<b>Change</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	16,900	15,309	10%
Share premium	45,107	5,308	750%
Other capital reserves	43,365	2,967	1362%
Retained earnings	2,606	42,089	-94%
<b>Total equity</b>	<b>107,978</b>	<b>65,673</b>	<b>64%</b>
<b>Total equity</b>	<b>107,978</b>	<b>65,673</b>	<b>64%</b>
<b>Non-current liabilities</b>			
Non-current liabilities under bank borrowings and other debt instruments	339,272	77 860	336%
<b>Total non-current liabilities</b>	<b>339,272</b>	<b>77,860</b>	<b>336%</b>
<b>Current liabilities</b>			
Current liabilities under bank borrowings and other debt instruments	137,371	44,048	212%
Trade and other payables	50,373	14,824	240%
Current tax payable	660	1,715	-62%
Employee benefits payable	14,065	11,461	23%
<b>Total current liabilities</b>	<b>202,469</b>	<b>72,048</b>	<b>181%</b>
<b>Total liabilities</b>	<b>541,741</b>	<b>149,908</b>	<b>261%</b>
<b>Total equity and liabilities</b>	<b>649,719</b>	<b>215,581</b>	<b>201%</b>

Source: the Company.

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

Debt under bank borrowings and other debt instruments increased substantially in connection with the Group's expenditure on debt purchases.

## 4.6 Cash flows

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

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

For a description of financial risk management, see notes to the separate financial statements.

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

The main sources of operating cash flows of the Company are related to changes in purchased debt portfolios, disclosed under "Change in financial assets at fair value through profit or loss". Below are presented details of cash flows related to expenditure on debt portfolios and cash recoveries from debtors.

<b>Purchased debt portfolios as at Jan 1 2011</b>	18,630
Purchase of debt portfolios	89,732
Expenditure adjustment for discount	(9Kruk23)
Cash recoveries	(47,234)
Revenue from debt purchase (interest and revaluation)	30,673
<b>Purchased debt portfolios as at Dec 31 2011</b>	<u>90,878</u>
Change in financial assets at fair value through profit or loss relative to cash flows	(72,248)

Source: the Company

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

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

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

## 4.8 Financial ratios

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

## 4.9 Explanation of differences between actual financial performance and previously published forecasts

KRUK S.A. has not published any financial forecasts.

## 4.10 Financial instruments

### 4.10.1 Use of financial instruments

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

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

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

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

## Credit risk

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

## Liquidity risk

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

## Market risk

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

### 4.10.2 Objectives and methods of financial risk management

The Company's risk management policies are established to identify and analyse the Company'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 Company's activities. Through appropriate training and management standards and procedures, the Company aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Assets relating to credit risk are presented below.

*PLN '000*

	<i>Note</i>	<u>Dec 31 2011</u>
Financial instruments at fair value through profit or loss	<i>16</i>	90,878
Loans		15,688
Receivables	<i>16.2</i>	27,842
Cash and cash equivalents	<i>20</i>	<u>10,023</u>
		<u>144,431</u>

Source: the Company.

## Financial instruments at fair value through profit or loss

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

## Loans

The Company advances loans to Group entities over which it exercises control, as well as to natural persons who previously repaid their debts to the Group. Thus the Company holds the relevant information on the borrowers' creditworthiness.

## Liquidity risk

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

## **Market risk**

In the Management Board's opinion, the market risk related to the Company is primarily limited to changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. The currency risk with respect to debt portfolios is offset as recoveries from the assets are invested on local markets without currency conversion. The Company does not use financial instruments to hedge the interest rate and currency risks.

### **4.10.3 Assessment of financial resources management**

In the opinion of the Management Board, there are no significant risks to the Company's current or future financial position related to financial resources management. The Company is able to monitor and service its debts, and manages its financial resources reasonably. For detailed information, see Note 27 to the Company's 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 Management Board of the Company hereby presents the Statement of compliance with corporate governance standards in 2011.

#### **5.1.1 Adopted code of corporate governance**

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

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

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

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

Regarding the rule set out in part I, section 1 of the Code whereby a company should pursue a transparent and effective information policy using both traditional methods and modern technologies, the Company stated that it would not fully comply with the rule recommending companies to enable on-line broadcasts of general meetings over the Internet, record general meetings, and publish the recordings on the company website. For the time being, a decision to comply with that recommendation would require the Company to incur too much expenditure on appropriate technical infrastructure which, in the Management Board's opinion, is not justified. In addition, non-compliance with the recommendation is intended to protect the shareholders, who have the right to refuse publication of their images and discussions recorded during General Meetings. However, the Company is considering the option to record its General Meetings and publish the recordings on its website. Moreover, the Management Board declares that – should a wider group of shareholders so request – it will take every effort to comply with the rule in its entirety. Regarding the rule whereby a company should have a remuneration policy and rules of defining that policy, the Management Board informs that the Company did not implement a remuneration policy for Management and Supervisory Board members. The rules governing remuneration for Management Board members are defined in accordance with Par. 2.8 of the Rules of Procedure for the Management Board, i.e. by the Company's Supervisory Board.

Based on these rules, the President of the Management Board proposes the amounts of remuneration for individual Management Board members other than the President, and submits the proposals to the Supervisory Board for approval. Remuneration of Supervisory Board members is determined by the General Meeting pursuant to Par. 12.5 of the Company's Articles of Association. The amounts of remuneration for members of the Company's governing bodies are disclosed in its annual reports. However, the Company is considering the development of a remuneration policy and rules of defining that policy at some point in the future.

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

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

## 5.2 Shareholder structure

### 5.2.1 Shareholders holding directly or indirectly large blocks of shares in KRUK S.A.

As at December 31st 2011, the structure of shareholders holding directly or indirectly large blocks of shares in KRUK S.A. was as follows (based on shareholder notifications received by the Company):

Shareholder	As at Dec 31 2011	
	Number of shares/votes at the General Meeting	% of share capital and the total vote at the General Meeting
Polish Enterprise Fund IV, private equity fund managed by Enterprise Investors	4,196,550	24.83
Piotr Krupa	2,655,790	15.71
Generali Otwarty Fundusz Emerytalny	866,101*	5.12
ING Otwarty Fundusz Emerytalny	863,333**	5.11

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

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

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

## 5.2.2 Changes in large shareholdings in 2011:

Shareholder structure as at December 31st 2010

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

On February 9th 2011, the District Court for Wrocław – Fabryczna in Wrocław registered an increase of the Company's share capital to PLN 15,800,340. The increase was effected through an issue of 491,520 new Series C ordinary shares, which were acquired, among others, by members of the Company's Management Board. Consequently, as of February 9th 2011 the shareholder structure was as follows:

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

Further changes in the share capital took place when Company shares were admitted to trading on the stock exchange by the Management Board of the Warsaw Stock Exchange on May 5th 2011. The Company shares were first listed on the Warsaw Stock Exchange on May 10th 2011. On May 23rd 2011, following an issue of Series D shares, the share capital was increased to PLN 16,900,340.00. Moreover, there were changes in the holding of Company shares by its principal shareholder – Polish Enterprise Fund IV LP. Following the changes described above, the shareholder structure was as follows:

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

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

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

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

## 5.2.3 Treasury shares

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

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

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

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

#### **5.2.4 Holders of securities conferring special control powers**

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

#### **5.2.5 Limitations on the exercise of voting rights**

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

#### **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 S.A. 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.

### **5.3 Incentive Scheme**

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

The rules of the Incentive Scheme for 2011–2014 were adopted in Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK S.A., dated March 30th 2011, and modified by virtue of a resolution of the Extraordinary General Meeting dated August 29th 2011. Under the scheme, eligible persons will be granted options to acquire Company shares on preferential terms set forth in the resolution and in the Rules for the Option Plan. The Eligible Persons comprise members of the Management Board (excluding the President), Company employees and employees of Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for Subscription Warrants is made.

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

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

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

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

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

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

### **5.4 Dividend policy**

#### **5.4.1 Historical data on dividend payments**

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

#### **5.4.2 Dividend policy**

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

## 5.5 The Parent's governing bodies

### 5.5.1 Management Board

#### 5.5.1.1 Composition of the Management Board, changes thereto and rules of appointment

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

The composition of the Management Board in the period January 1st – December 31st 2011 was as follows:

- |                     |                                   |
|---------------------|-----------------------------------|
| 1) Piotr Krupa      | President of the Management Board |
| 2) Rafał Janiak     | Member of the Management Board    |
| 3) Agnieszka Kułton | Member of the Management Board    |
| 4) Urszula Okarma   | Member of the Management Board    |
| 5) Iwona Słomska    | Member of the Management Board    |
| 6) Michał Zasępa    | Member of the Management Board    |

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

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

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

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

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

#### 5.5.1.2 Powers of the Management Board

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

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

A declaration of will on behalf of the Company may be made by: (i) two members of the Management Board acting jointly; (ii) a member of the Management Board acting jointly with a commercial proxy; or (iii) an agent with the power to perform certain types of activities, acting on his/her own, under a power of proxy granted to him/her by the Company.

#### 5.5.1.3 Shares in the Company or in the Company's subsidiaries held by members of the Management Board

Members of the management staff of KRUK S.A. holding Company shares or rights to such shares as at December 31st 2011. As at the date of this report, the number of Company shares held by the management remained unchanged.

Name	Position	Number of shares held as at the date of the report
Piotr Krupa	President of the Management Board	2,655,790
Rafał Janiak	Member of the Management Board	144,710
Urszula Okarma	Member of the Management Board	110,350

Agnieszka Kułton	Member of the Management Board	117,220
Iwona Słomska	Member of the Management Board	49,600
Michał Zasępa	Member of the Management Board	8,000

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

Pursuant to Par. 7.8 of the Parent's Articles of Association, the rules of remuneration of the Management Board members and the amount of remuneration of the President of the Management Board are determined by the Supervisory Board. The amounts of remuneration of the individual Management Board members other 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:

<b>Name and surname</b>	<b>Effective date of the contract</b>	<b>Position</b>
Piotr Krupa	January 29th 2004	President of the Management Board
Rafał Janiak	August 16th 2006	Member of the Management Board
Agnieszka Kułton	May 30th 2006	Member of the Management Board
Urszula Okarma	May 30th 2006	Member of the Management Board
Iwona Słomska (employment contract)	November 1st 2009	Member of the Management Board
Michał Zasępa	May 28th 2010	Member of the Management Board

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

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

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

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

The terms of the managerial contracts correspond to the terms of mandates of the Management Board members: they expire with the expiry of a given mandate, including as a result of removal or resignation from office of the Management Board member. Furthermore, a managerial contract may be terminated by its parties on three months' notice. In the case of the President of the Management Board, the notice period is nine months. A managerial contract may also be terminated by its parties without notice in circumstances indicated in the contract.

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

under the contract concluded with the Member of the Management Board, Finance – for 24 months after the contract termination, in an amount equal to 25% of the Member's remuneration;

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

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

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

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

The table below shows the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2011) from the Company and its Subsidiaries for 2011.

Name and surname	Remuneration from the Company for 2011	Additional benefits* from the Company for 2011	Remuneration from the Subsidiaries for 2011	Additional benefits* from the Subsidiaries for 2011
	(PLN '000)		(PLN '000)	
Piotr Krupa	714.0	1.8	-	-
Rafał Janiak	396.0	1.6	-	-
Agnieszka Kułton	366.0	2.6	11.3	-
Urszula Okarma	366.0	1.4	-	-
Iwona Słomska	264.0	1.5	-	-
Michał Zasepa	372.0	257.4	-	-

\* Additional benefits include bonuses, medical services, and personal accident insurance.

Source: the Company.

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

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

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

## 5.5.2 Supervisory Board

### 5.5.2.1 Composition of the Supervisory Board, changes thereto and rules of appointment

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

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

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 40% or more of the total vote at the General Meeting, it should have the right to appoint and remove from office:

- 3 (three) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 4 (four) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 20% or more, but less than 40% of the total vote at the General Meeting, it should have the right to appoint and remove from office:

- 2 (two) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 3 (three) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Mr Piotr Krupa holds shares in the Company conferring the right to 8% or more of the total vote at the General Meeting, he should have the right to appoint and remove from office:

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

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

The composition of the Supervisory Board in the period January 1 - October 19th 2011 was as follows:

- |    |                   |                                   |
|----|-------------------|-----------------------------------|
| 1) | Dariusz Prończuk  | Chairman of the Supervisory Board |
| 2) | Paweł Sikorski    | Member of the Supervisory Board   |
| 3) | Piotr Stępiak     | Member of the Supervisory Board   |
| 4) | Krzysztof Kawalec | Member of the Supervisory Board   |
| 5) | Wojciech Małek    | Member of the Supervisory Board   |

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

- |    |                   |                                   |
|----|-------------------|-----------------------------------|
| 1) | Dariusz Prończuk  | Chairman of the Supervisory Board |
| 2) | Józef Wancer      | Member of the Supervisory Board   |
| 3) | Piotr Stępiak     | Member of the Supervisory Board   |
| 4) | Krzysztof Kawalec | Member of the Supervisory Board   |
| 5) | Wojciech Małek    | Member of the Supervisory Board   |

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

### 5.5.2.2 Powers of the Supervisory Board

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

- reviewing financial statements and the Directors' Report on the Company's operations for the previous financial year, in terms of their consistency with the accounting books, relevant documents and with the facts, and assessing the Management Board's recommendations concerning the distribution of profit or coverage of loss;
- submitting to the General Meeting an annual written report on the results of the review referred to in item 1 above;

- appointing and removing from office the President of the Management Board;
- appointing and removing from office members of the Management Board (including Vice-Presidents);
- suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- determining the amount of remuneration of the President of the Management Board;
- approving the Company's annual financial plans (the budget) and strategic economic plans;
- granting consent to contracting loans by the Company, other than loans provided for in the annual budget, in excess of a cumulative annual amount of PLN 5m, with the exception of loans contracted from related parties;
- issuing sureties and encumbering the Company's assets, assuming commitments under guarantees and other off-balance-sheet commitments and liabilities, in excess of a cumulative annual amount of PLN 5m, except where the sureties, encumbrances, commitments or liabilities are provided for in the budget or the transactions are executed solely with a related party of the Company;
- granting consent to contracting liabilities by the Company as part of a single transaction or a series of related transactions with a total value in excess of PLN 2m in a financial year, other than liabilities provided for in the budget approved in accordance with these Articles of Association or arising in the Company's ordinary course of operations;
- granting consent to assignment by way of security, or creation of a pledge, mortgage or other encumbrances over the Company's assets other than provided for in the budget approved in accordance with these Articles of Association, in excess of a cumulative annual amount of PLN 2m;
- granting consent to acquiring of or subscribing for shares in other commercial companies or joining other businesses by the Company;
- granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen per cent) of the Company's net book value as determined on the basis of the last audited financial statements;
- granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks;
- granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other than provided for in the budget would exceed PLN 500,000.00 (five hundred thousand zloty);
- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's annual financial statements, referred to in Art. 395 of the Polish Commercial Companies Code, in accordance with the Polish and international accounting standards;
- granting consent to the execution of or amendment to agreements concluded between the Company or its subsidiary and Management or Supervisory Board members;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1,000,000.00 (one million zloty) in a financial year;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary outside the scope of the Company's business in an amount exceeding PLN 200,000.00 (two hundred thousand zloty) in a financial year;
- granting consent to the issue of bonds by the Company;
- granting consent to the purchase or disposal of real estate, perpetual usufruct rights or interests in real estate by the Company.
- Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board. The Rules of Procedure of the Supervisory Board define the detailed rules for its meetings.
- Supervisory Board resolutions are passed with an absolute majority of votes of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. A resolution of the Supervisory Board is valid when all Supervisory Board members have been invited to the meeting and at least half of them attend the meeting.

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

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

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

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

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

The table below shows the amounts of remuneration received by the Supervisory Board members (who were in office in 2011) from the Company and its Subsidiaries for 2011.

Name and surname	Remuneration from the Company for 2011
	(PLN '000)
Piotr Stępiak	74.0
Dariusz Prończuk	-
Krzysztof Kawalec	45.9
Paweł Sikorski	-
Wojciech Małek	-
Józef Wancer	42.6*

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

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

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

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

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

#### 5.5.2.5 Supervisory Board Committees

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

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

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

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

The Audit Committee's responsibilities include in particular:

- 1) monitoring financial reporting processes;
- 2) monitoring the effectiveness of the internal control, internal audit and risk management systems;
- 3) monitoring the financial audit function;
- 4) monitoring the independence of the chartered auditor and the entity qualified to audit the financial statements;
- 5) reviewing the Company's financial statements and presenting opinions on the financial statements to the Supervisory Board;
- 6) reviewing related-party transactions;
- 7) recommending an auditing entity to the Supervisory Board and providing the justification for the recommendation.

The composition of the Audit Committee, as appointed by virtue of a Supervisory Board resolution of May 4th 2011, was as follows:

1. Wojciech Małek – Chairman of the Audit Committee
2. Piotr Stępnik – Member of the Audit Committee
3. Krzysztof Kawalec – Member of the Audit Committee

In the 2011 financial year, the Audit Committee:

- discussed the financial reporting process in place at the Company,
- assessed the auditor's work and discussed the financial reporting activities undertaken by the auditor,
- assessed the Company's compliance with corporate governance standards set out in the "Best Practices of WSE Listed Companies".

The Audit Committee also reviewed related-party transactions.

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

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

- 1) planning the policy of remuneration of the Management Board members;
- 2) aligning the remuneration of the Management Board Members with the Company's long-term interests and its financial performance;
- 3) recommending candidates for the Management Board to the Supervisory Board;
- 4) providing periodical assessment of the structure, number of members and performance of the Management Board and recommending changes in this respect to the Supervisory Board, providing periodical appraisal of the skills, expertise and experience of the individual Management Board Members to the Supervisory Board.

The composition of the Remuneration and Nominations Committee, appointed by virtue of a Supervisory Board resolution of May 4th 2011, is as follows:

1. Dariusz Prończuk – Chairman of the Remuneration and Appointment Committee,
2. Krzysztof Kawalec – Member of the Remuneration and Appointment Committee,
3. Piotr Stępnik – Member of the Remuneration and Appointment Committee.

In 2011, the Remuneration and Nominations Committee:

- assessed and reviewed the bonus system operated by the Company,
- reviewed the rules of remuneration of the Management Board Members against the Company's long-term interests and its financial performance,
- analysed the rules of remuneration of the Company's senior management staff in terms of the advisability of preparation and implementation of a remuneration policy at the Company.

Pursuant to the Rules of Procedure of the Supervisory Board, the **Finance and Budget Committee** is composed of two to four Supervisory Board members. As at the date of this report, the composition of the Finance and Budget Committee, established by virtue of a Supervisory Board resolution of May 4th 2011, is as follows:

1. Dariusz Prończuk – Chairman of the Finance and Budget Committee,
2. Piotr Stępnik – Member of the Finance and Budget Committee.

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

- 1) drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board concerning matters related to the finances of the Company,
- 2) supporting oversight of the performance of the Company's budget,
- 3) performing the on-going analysis of the Company's financial performance and standing,
- 4) addressing matters related to the operation of the Company's cash, credit and tax systems, as well as its financial plans, budgets and property insurance contracts.

In the 2011 financial year, the Finance and Budget Committee analysed the Company's financial performance and standing, carried out an initial evaluation of the performance of the Company's budget in 2011 and discussed assumptions for the draft budget resolution.

### 5.5.3 General Meeting

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

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

- review and approve the Directors' Report on the Company's operations and the financial statements for the previous financial year,

- adopt a resolution concerning distribution of profit or coverage of loss,
- grant discharge to members of the Company's governing bodies in respect of their performance of duties,

An Extraordinary General Meeting may be convened by the Management Board (acting on its own initiative or at the request of shareholders representing at least half of the share capital or voting power within the Company), by the Supervisory Board (if it deems it advisable to do so) or by shareholders authorised to do so by the registry court under Art. 430.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that particular items be placed on the Meeting's agenda. Any such requests should be made in writing or in the electronic form and submitted to the Management Board. An Extraordinary General Meeting should be convened within two weeks from the date when the Management Board receives a relevant request.

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

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

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

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

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

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

- 1) review and approval of the Directors' Report on the Company's operations and the financial statements for the previous financial year,
- 2) decisions as to distribution of profit or coverage of loss,
- 3) granting discharge to members of the Management Board and the Supervisory Board in respect of their performance of duties,
- 4) 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,
- 5) disposal or lease of the Company's business or its organised part and establishment of limited property rights thereon,
- 6) amendments to the Company's Articles of Association,
- 7) an increase or reduction of the share capital,
- 8) merger, transformation or demerger of the Company;
- 9) dissolution of the Company and opening of its liquidation,
- 10) passing resolutions approving the Rules of Procedure of the General Meeting and the Rules of Procedure of the Supervisory Board,
- 11) consideration and resolution of proposals put forward by the Supervisory Board,
- 12) other matters reserved for the General Meeting under the provisions of the Articles of Association or the applicable laws,

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

## 5.6 Rules governing amendments to the Company's Articles of Association

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

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

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

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

# 6 OTHER INFORMATION

## 6.1 Court, arbitration or administrative proceedings

### General information

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

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

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

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

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

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

Subject matter of the proceedings – the value of claim [PLN] – PLN 200,000.00; instigated on September 27th 2010 by Ewa Sierka against KRUK S.A. – KRUK S.A. position – The Company deems the action for payment of compensation for infringement of personal rights as groundless and expects it to be dismissed in whole.

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

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

## **6.2 Auditors**

On July 14th 2011, the Company and KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement on audit of separate and consolidated financial statements for 2011 and review of separate and consolidated financial statements for H1 2011. The fee for audit of the annual separate financial statements, audit of the annual financial statements of subsidiaries, review of the annual financial statements of subsidiaries, and audit of the annual consolidated financial statements was set at PLN 210 thousand (2010: PLN 218 thousand); for other certification services, including review of semi-annual consolidated financial statements – at PLN 155 thousand (2010: PLN 382 thousand). The separate and consolidated financial statements for 2010 were audited by KPMG Audyt Sp. z o.o.

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

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

## **6.3 Major research and development achievements**

Research and development work is focused on improving Delfin, the proprietary IT system designed to facilitate the debt management process. The system includes a number of functionalities which are fully customised to support the KRUK Group, the Group's internal procedures and its clients. The system has been developed and upgraded under supervision of a team of IT professionals employed by the Company. The fact that the system does not involve dependence on any third-party software vendor and the system's open architecture render the platform flexible and scalable; each improvement of the debt collection process is followed with a relevant modification to the Delfin platform. In 2011, the Company spent PLN 2,180 thousand on its IT systems.

## **6.4 Environmental matters**

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

## 6.5 Company shares on the Warsaw Stock Exchange

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

In 2011, the price of KRUK shares remained in a flat trend (PLN 40–44), except in August and September, when the financial markets suffered a strong retreat and the KRUK shares fell to PLN 32.



The table below presents the key statistics on the performance of KRUK stock in 2011 (at closing prices).

	Issue price	Dec 31 2012	average price	low	high
KRUK	39.7	43.72	40.56	32.00	44.00

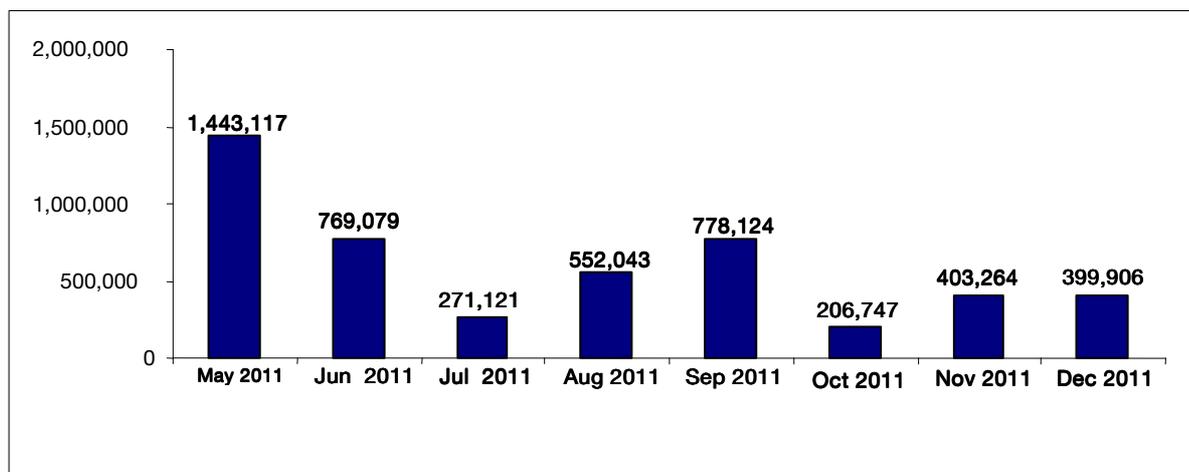
In 2011, the rate of return on KRUK shares (over the issue price) was 10.13%. Over the same period, the WSE stock indices yielded negative returns. The small cap index sWIG80, in which KRUK shares were included pursuant to a resolution of the WSE Management Board of August 8th 2011, lost 33.19%, and the all-cap index fall 23.79%.



	KRUK	sWIG80	WIG
11-05-10	39.70 (issue price)	12,717.72	49,332.75
11-12-30	43.72	8,496.54	37,595.44
Rate of return	10.13%	-33.19%	-23.79%

In 2011, the total trading volume of KRUK shares was 4.8m (28.5% of the Company's share capital), representing a total value of PLN 194.5m. The average number of KRUK shares traded daily was 29,411.

The chart below presents the monthly trading volumes for the KRUK stock in 2011.



## 6.6 CSR policy

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

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

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

#### **Articles, guidelines and advice**

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

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

#### **“Our Debts” and “Day without Debts” events**

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

#### **Active support for voluntary blood donation**

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

### **Organisation of free first aid courses for employees**

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

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

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

### **Encouraging and supporting employees to engage in charitable campaigns**

The employees of the KRUK Group, including the Company's employees, have also been undertaking independent charitable initiatives. The Company supports its employees in the organisation and implementation of the undertaken projects.

## **6.7 Awards and distinctions**

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

### **Złoty Laur Klienta 2011 (Golden Laurel 2011)**

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

### **Biała Lista 2011 (White List 2011)**

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

## 6.8 Glossary of terms

<b>B2B</b>	Business-to-Business relations
<b>B2C</b>	Business-to-Consumer relations
<b>Auditor</b>	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., ul. Chłodna 51, 00-867 Warsaw, the Company's auditor
<b>EURO, EUR</b>	The lawful currency of the Eurozone countries
<b>FMCG</b>	Fast Moving Consumer Goods
<b>WSE</b>	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
<b>the Group, the KRUK Group</b>	The Company as the parent along with its Subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
<b>GUS</b>	Polish Central Statistics Office
<b>IBnGR</b>	The Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową)
<b>Kancelaria Prawna RAVEN</b>	Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław
<b>Polish NDS</b>	Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
<b>PFSA</b>	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
<b>KRS</b>	National Court Register
<b>ERIF Bussines Solutions</b>	ERIF Bussines Solutions Sp. z o.o. of Wrocław
<b>KRUK International of Romania</b>	KRUK International S.R.L. of Romania
<b>KRUK International of the Czech Republic</b>	KRUK International S.r.o. of the Czech Republic
<b>IAS</b>	International Accounting Standards as endorsed by the European Union
<b>IFRS</b>	International Financial Reporting Standards as endorsed by the European Union
<b>NBP</b>	National Bank of Poland
<b>Non-Standard Securitisation Closed-End Investment Funds</b>	Prokura NS FIZ, Prokulus NS FIZ and Sekura NS FIZ, as applicable
<b>GDP</b>	Gross Domestic Product
<b>PLN</b>	The Polish Złoty, the lawful currency in Poland
<b>Polski Rynek Długów; PRD Sp. z o.o.</b>	Polski Rynek Długów sp. z o.o. of Wrocław
<b>UOKiK President</b>	President of the Office of Competition and Consumer Protection

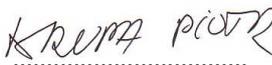
<b>Incentive Scheme</b>	An incentive scheme for 2011-2014 implemented by the Company, addressed to the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of management boards and employees of the Subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase.
<b>Prokura NS FIZ</b>	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty
<b>Prokulus NS FIZ</b>	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty
<b>Supervisory Board</b>	The Company's Supervisory Board
<b>Monetary Policy Council (RPP)</b>	The Monetary Policy Council, a body of the National Bank of Poland
<b>ERIF</b>	Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw
<b>RON</b>	The Romanian Leu; the lawful currency in Romania
<b>Regulation on current and periodic information</b>	The Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 209, item 1744, as amended)
<b>Regulation on the Market and Issuers</b>	The Minister of Finance's Regulation on detailed conditions to be met by an official stock exchange market and issuers of securities admitted to trading on that market, dated October 14th 2005 (Dz. U. of 2005, No. 206, item 1712)
<b>Secapital Luksemburg</b>	Secapital S.à.r.l. (Luxembourg)
<b>Secapital Polska</b>	Secapital Polska Sp. z o.o. of Warsaw
<b>Consolidated Financial Statements</b>	The Group's consolidated financial statements for the reporting period ended December 31st 2011, prepared in accordance with the IFRS
<b>The Company; KRUK</b>	KRUK S.A. of Wrocław
<b>Subsidiaries</b>	The Company's subsidiary undertakings, as defined in the Accountancy Act, and Kancelaria Prawna RAVEN
<b>Articles of Association</b>	The Company's Articles of Association
<b>Eurozone</b>	The group of countries which have adopted the Euro, including Austria, Belgium, Cyprus, Finland, France, Greece, Spain, Netherlands, Ireland, Luxembourg, Malta, Germany, Portugal, Slovakia, Slovenia, Italy
<b>UOKiK</b>	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
<b>General Meeting</b>	The Company's General Meeting
<b>Management Board</b>	The Company's Management Board

## SIGNATURES OF MANAGEMENT BOARD MEMBERS

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

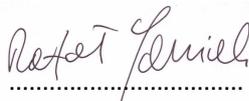
**Piotr Krupa**

*President of the Board*

  
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**Rafał Janiak**

*Member of the Board*

  
.....

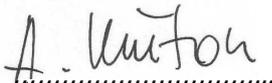
**Urszula Okarma**

*Member of the Board*

  
.....

**Agnieszka Kulon**

*Member of the Board*

  
.....

**Iwona Słomska**

*Member of the Board*

  
.....

**Michał Ząsepa**

*Member of the Board*

  
.....

Wrocław, March 13 2012



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