



*Directors Report on the operations
of the KRUK Group in 2016*



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CEO's Letter

Dear Shareholders,

I would like to open this letter with a personal reflection. The release of an annual report is one of few moments in a year when we can look back over our achievements. Today, I am filled with pride. KRUK belongs to the exclusive group of Polish businesses established in the free market economy, which have enjoyed rapid growth and still remain in Polish hands. I perceive these achievements mainly in terms of their scale. KRUK is already present on seven European markets and its market capitalisation has exceeded PLN 4bn.

The direction of our expansion remains a priority. While it is important where we are now, it is even more important where we are heading. Two years ago, I defined a goal for my team: to be among the Top 3 European debt management players in terms of net profit by the end of 2019. This seemed a natural direction: since we had advanced to the European top league in our sector, the podium was the logical next step. Today, only midway through that period, and I can proudly say that our goal has been achieved. KRUK is currently the third largest debt management business among Europe's publicly traded companies.

However, we must not become complacent, which is why we have decided to update our objective for the next two years. My team and I have set targets for EPS and ROE growth over 2017 of at least 15% and above 20%, respectively. We consider this new objective to be more ambitious and more relevant. In the long run, far beyond the horizon of our strategy until 2019, we aspire to become the world's largest public company in the industry. I believe this ambition will be well received by our shareholders and investors at large.

In realising it, the Group will leverage both new and already completed investment projects. Over the last year, we invested a total of PLN 1.3bn in 99 debt portfolios with a nominal value of PLN 16.4bn. It was the highest amount ever spent by KRUK. In the last 12 months, we purchased debt portfolios from major institutions in seven countries: Poland, Romania, the Czech Republic, Slovakia, Germany, Spain, and Italy. In each of these countries, institutional creditors were quite eager to sell their debts. With our extensive geographical reach and product range, we were able to take part in a great number of auctions, picking the best investment opportunities. All this makes me confident about our business in 2017. We can already see that European institutions are likely to be actively selling their debt portfolios in the coming quarters.

The rising investments in debt portfolios translate into growing cash recoveries. KRUK's clients continue to appreciate our unique amicable settlement strategy, which helped us recover PLN 992m, 20% more than in 2015 and our best result to date. 2016 reaffirmed our belief that treating debtors as partners is a win-win approach.

At this point, I should mention that in 2016 we managed to complete two landmark investment projects. For one, we closed the acquisition of P.R.E.S.C.O.'s debt portfolio in Poland, thus opening a secondary market of large-scale debt purchase. And in Romania, together with the World Bank, we acquired a debt portfolio from the Eurobank Group, marking the largest and most important transaction in the Romanian market's history.

In 2016, KRUK pressed on with its international expansion. We acquired our first portfolios in Italy and Spain, and new ones in Germany. Total investments in the three new markets made in 2016 totalled PLN 437m, just below our investments in all of 2015. I am very happy with the pace at which we are gaining foothold on new markets. We have already purchased portfolios in each of them and participate in a number of new auctions, often much larger than those in Poland or Romania. It is an unquestionable achievement that we have managed to win the trust of our business partners so quickly. KRUK is the only Polish company of the financial sector to consistently enter foreign markets and establish itself as a major international player.



In 2016, we expanded our business in Western Europe through the acquisition of CreditBase International of Italy and Grupo Espand of Spain. Both companies have on-the-ground experience in their local markets, and had worked with us for several months in debt portfolio valuations and management. We believe that with our unique collection strategy, combined with local insight and the new team in our family, KRUK is set to become a leader of the debt management market in Western Europe. We are still eyeing potential new additions to our line-up, which would bring us closer to our goal, for example in Germany.

Our growth is supported by an exceptionally strong financing base. In 2016, we issued 11 series of bonds, denominated in both the złoty and euro, worth about PLN 830m. All have already been floated on the Catalyst market and are publicly traded. In the coming months, we will focus on building stronger ties with the investor community. In November, we launched the Fourth Public Bond Issue Programme, under which we can raise another PLN 460m.

Furthermore, in December we raised PLN 215m from the issue of one million new shares. This marked KRUK's first issue since the IPO in 2011. The decision was met with unanimous shareholder support at the General Meeting. Funds raised from the issue will be allocated towards continued business development and building of the KRUK Group's value. The capital will facilitate strategic projects designed to expand our presence on international markets, including acquisitions in the debt management sector.

The robust results achieved in 2016 will serve as a foundation for our lasting success in the years to come. We continue to appreciate the immense value of regular dividend payments. In 2016, for the second time, we shared our profits with shareholders at PLN 2 per share. However, we would like to reaffirm our commitment to prioritising growth and value creation. Dividends may be paid in the following years, to the extent they will not affect our ability to finance further expansion.

After all, shareholder value is also driven by share price. Last year saw the price of KRUK shares soar to new highs. In 2016, the price at which they were traded on the Warsaw Stock Exchange rose by 38% to reach PLN 237 at year end. At the end of 2016, the Company's market capitalisation was above PLN 4.2bn. In addition

to our ability to create value for shareholders, we are also happy with the increasing liquidity of our stock. The average monthly value of trade in KRUK shares in 2016 exceeded PLN 150m, up 127% on 2015. Our estimates show that the average daily value of trade in KRUK shares was just under PLN 8m. The improved liquidity and share price at the end of January 2016 elevated us to the first place on the reserve list to the WIG30 index and practical number two position on the corresponding list to the WIG20 index, following their annual revisions in March 2017.

I wish to thank all those who contributed to our success in 2016. Above all, I would like to thank my team, now three thousand employees strong, all of them full of passion, dedication, optimism and talent, who daily give a piece of themselves to make our success possible.

On the cover of this report you can see Vincent van Gogh's masterpiece "View of the Sea at Saintes-Maries". Why we chose this picture? It's not a coincidence! Vincent van Gogh is the representative of impressionism. This unique trend in painting was began in the nineteenth century by a group of French artists who doesn't follow traditional templates in their artistic vision. Impressionists sought innovative techniques, creative forms and state of art solutions – exactly like the KRUK Group. The impressionist painters used exclusively only seven colors of the rainbow and in this palette they especially beloved green and blue, which are also KRUK's colors. As the KRUK Group – like the impressionists – we are not afraid to sail into the unknown. We believe that if we have on our boat the right people who do the right things, together we'll definitely experience fantastic moments and reach the unique places. I would like to thank everyone accompanying us on this voyage.

I encourage you to study the report and learn more about our performance.

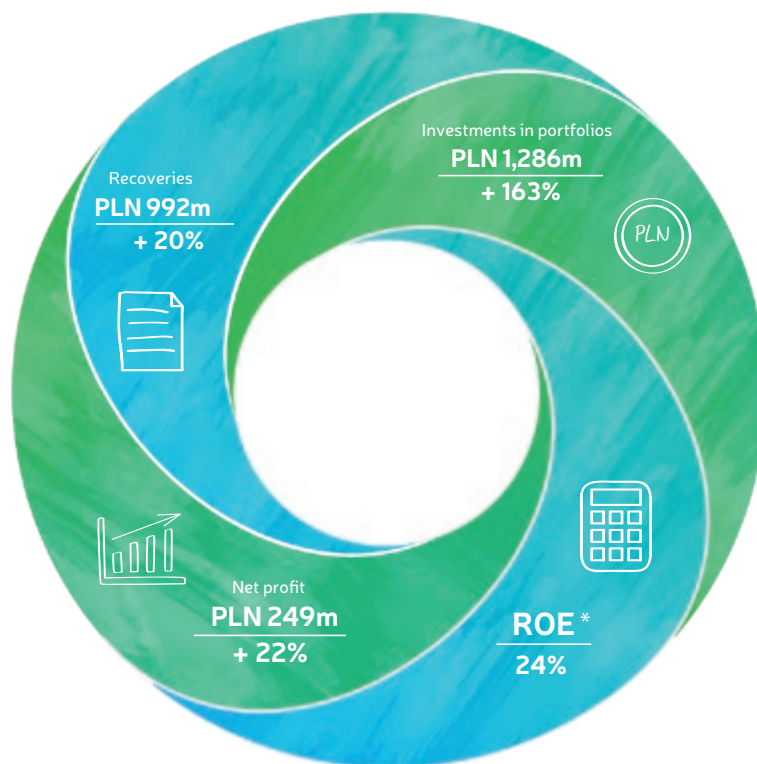
Respectfully yours,

Piotr Krupa



President of the Management Board

Overview of 2016



PLNm	2016	2015	change %
Expenditure on debt portfolios	1,286	489	163
Gross recoveries	992	826	20
Carrying amount of purchased portfolios	2,641	1,598	65
Projected future gross cash flows (120 months)	5,037	2,835	78
Total revenue	783	611	28
Revenue from purchased portfolios	725	564	29
EBIT	349	251	39
EBITDA**	363	262	38
Cash EBITDA***	630	524	20
Net profit	249	204	22
Basic EPS (PLN)	14.08	11.84	19
Diluted EPS (PLN)	13.55	11.48	18
ROE*	24%	26%	-
Net debt to equity	1,1	1,0	-

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

** EBITDA = EBIT + depreciation and amortisation

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

Source: the Company

We help people pay their debts

KRUK is a partner to both indebted people and creditors. Every person having a collection account with KRUK may propose their own workable debt repayment terms. We will set up a repayment plan suited to their individual circumstances and help them escape the debt trap.

What sets us apart?

CLIENT FOCUS



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

DEBT REPAYMENT IN INSTALMENTS



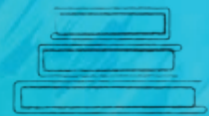
We arrange convenient instalment payment plans tailored to the financial circumstances of individual clients. This helps them solve their financial problems step by step.

CASE-BY-CASE APPROACH



We approach every case individually. We provide advice, explain any difficult issues, participate in the assessment of clients' finances, and work towards optimal solutions.

EDUCATIONAL INITIATIVES



We design materials and run numerous projects to educate Poles about money and debt. We have set up various initiatives, including Day without Debts, an annual event encouraging people to pay off their debts.

Testimonials

They are very accessible, but you need to be ready to talk to them. They offer solutions to people. They don't force you to pay, but size the instalments according to your ability to pay.

They are people like you and me, and they want to help.

I had my doubts about KRUK, but they have turned out terrific. I was worried that the instalments would be unmanageable. But when they sent them, we were all satisfied.

At KRUK they are open-minded, reassuring, and ready to meet you half-way.

Court bailiffs will seize half of your monthly salary. They can do whatever they want and are difficult to negotiate with. With KRUK it's easier to reach an agreement.

Debt servicing

Since its inception in 1998, KRUK has assisted people in seven countries across Europe to settle their debts. We are aware that the inability to stay current on your bills is often a result of life's hardships like a job loss, illness, unexpected expenses or even sudden variations in currency exchange rates. A possible reason is also that sometimes people overestimate their abilities and fall behind on bills.

We know that indebtedness is a temporary problem that can be overcome. All that is needed is a little bit of effort, determination, and credit counselling. We provide amicable solutions to people who have fallen into debt with no bad faith on their part or as a result of fraud, and who want advice on how to pay it off. How is it done? Through negotiations and compromise, on workable terms, in payment instalments adjusted to

match a client's ability to pay, without unnecessary pressure, costly court proceedings, enforcement by bailiff or unwanted entries in the credit report. We help clients settle their debts and regain control of their finances step by step.

We strive to gain an insight into our clients' needs and expectations on a daily basis. We regularly analyse their needs and satisfaction with the service and solutions offered by KRUK. We actively seek out new methods and opportunities to meet and exceed client expectations and help debtors get back to the financial world and rebuild creditworthiness. We focus our efforts on building strong, sustainable client relationships. We know for a fact that if a good relationship is established with a debtor, the case is almost certain to end well. Therefore we strive to turn each case into a happy ending.

Leader of the attractive debt management market

KRUK S.A. is a leader of the debt management market. Over nearly two decades, we have grown from a small firm employing less than 20 staff into a global financial group, specialising broadly in debt management. Currently, the KRUK Group comprises a number of companies offering a comprehensive range of modern integrated services, which we are ready to tailor to the needs and expectations of our partners in order to recover payments owed to them.

On a mass scale, KRUK pursues a strategy focused on amicable settlements with its clients, i.e. debtors, spreading repayment of their debt over manageable instalments. Supported by media campaigns, the strategy aims to convince debtors to start talking with KRUK about repayment terms.

The Group's core business is the management of debt for both institutional clients and for the Group's own account.

The debt management business is supported by the Group's law firm Kancelaria Prawna RAVEN and by ERIF BIG S.A., a credit reference bureau. The Group is also developing the Novum loan service offered to those clients who previously repaid their debts towards the Group.

In 2007, the Group launched its operations on the Romanian market, and in 2011 – on the Czech and Slovak

markets. KRUK Deutschland was established in 2014 and a year later KRUK bought its first debt portfolios in Germany. Also in 2015, two more companies were established – in Italy and Spain. KRUK acquired its first debt portfolio on the Italian market still in 2015, and on the Spanish market – early in 2016.

In the same year, we closed the acquisition of a debt portfolio from P.R.E.S.C.O., opening a secondary debt purchase market in Poland. In the transaction we purchased 2 million cases with a total nominal value of PLN 2.7bn.

In 2016, we sealed the largest ever debt purchase transaction in Romania, signing an agreement with Eurobank Group entities to acquire a consumer debt portfolio with a nominal value of PLN 2.4bn. Our partner in the transaction was IFC, a member of the World Bank Group. The agreement has taken KRUK to the next level, where we can work with the world's largest financial institutions.

We boosted our newly launched operations in Western Europe (Germany, Italy and Spain) by acquiring local players. In 2016, we purchased 100-percent ownership interests in Grupo Expand of Spain and Credit Base International of Italy. The acquired companies are local players with an established market presence and experience of working with KRUK on portfolio valuations and debt management.

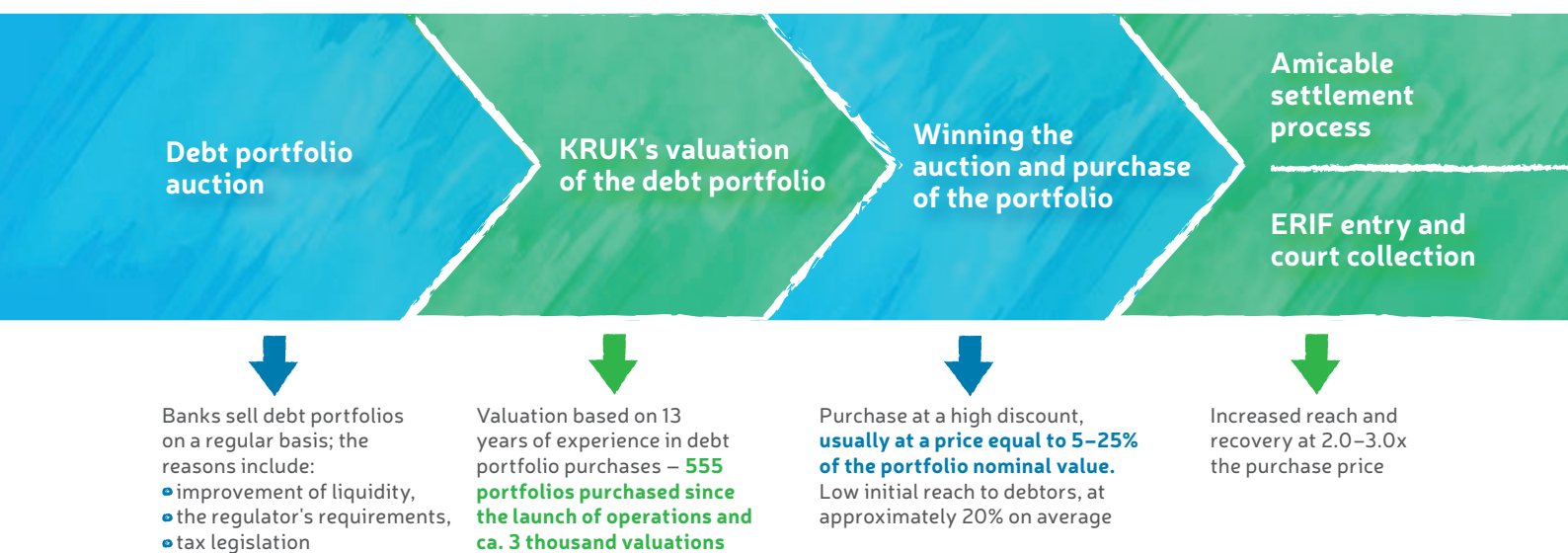
Most experienced debt buyer on the market

The Group's core business is the management of debts for the Group's own account. The Group manages debts in three segments:

- consumer debts (unsecured);
- mortgage-backed debts;
- corporate debts.

The KRUK Group manages receivables purchased from banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector, but it focuses on the banking market, where it relies on long-term relations with its key accounts.

Debt purchase and management process



Purchased debt portfolios PLNm	2012	2013	2014	2015	2016
Nominal value of purchased debt portfolios	3,585	3,791	3,776	4,926	16,439
Accumulated nominal value of purchased debt portfolios	14,126	17,917	21,693	26,619	43,058
Number of cases purchased by KRUK (cumulatively)	1,974	2,363	2,700	3,027	5,297
Cash recoveries	451	538	712	826	992
Accumulated cash recoveries	1,405	1,943	2,655	3,481	4,473

A trusted business partner

KRUK supports its core debt buying business with ancillary activities. This comprehensive approach is an important competitive advantage as it offers numerous

operational synergies and helps mitigate the risk related to debt portfolio purchases thanks to additional statistical information.

How else can we help?

MONITORING DEBT

The tools we use include:



phone
calls



text
messages



voice
messages



dunning letters prepared
on a case-by-case basis

Monitoring debt

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

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

Amicable debt collection

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

The process involves a wide spectrum of activities selected on a case-by-case basis. The collection tools we employ vary depending on the type of debt portfolio and the needs of our business partners. Accordingly, every debt

portfolio accepted for management is analysed, and unique know-how, knowledge of the industry, and selection of an appropriate collection process for a given case type facilitate effective credit management and accurate planning of the collection process. We conduct restructuring processes and execute agreements for debt repayment in instalments. In our amicable collection activities, we put emphasis on reaching clients, establishing contact and agreeing on feasible options of debt repayment.

The purpose of the amicable collection process is to:

- Recover overdue payments as quickly as possible.
- Gain insight into a debtor's financial condition and assess the likelihood of payment.
- Verify debtor contact details.
- Recover payments from debtors with an unsuccessful collection history.
- Obtain information on debtor assets.

Advantages of the amicable collection process:

- High rate of success in contacting debtors.
- Improved portfolio quality.
- Debtor discipline.
- Reduced risk of debt ageing.

Court proceedings

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

- Out-of-court amicable dispute settlement.
- Court proceedings: ordinary, warrant-of-execution and separate proceedings, including the payment order, writ of payment, electronic proceedings by writ of payment and simplified procedures.
- Legal representation of creditors in the course of insolvency and arrangement proceedings.
- Handling the probate process, including determination of a debtor's heirs and initiating proceedings to secure an enforcement order against an heir.
- Enforcement of security interests and claims in the SME sector.
- Active monitoring of court proceedings.
- Due diligence processes, including reviews of clients' documents.

Specialised services

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

The separate bespoke process used with respect to mortgage-backed debts includes all tools available for individual services. Our key mission is to provide bespoke services and solutions that suit the type of case handled and the large size of debts secured by mortgage. The process is supported by non-standard solutions, with dedicated staff advising and supporting clients on each stage of the process. A vital element of the process is voluntary sale of the property. We also work with our partners in the area of real estate and financial services sales agency.

After we take on a collection case, we analyse the client's financial standing and verify the condition and quality of the collateral. Then, depending on the findings, steps are taken to restore regular repayments, arrange credit

restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate). Ensuring an optimal mortgage debt management system is the key priority in our operating practice. Such system translates directly into efficient debt collection.

Erif credit information agency

The ERIF credit information agency offers tools for checking the creditworthiness of potential business partners and disciplining clients who fall in arrears with their payments.

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

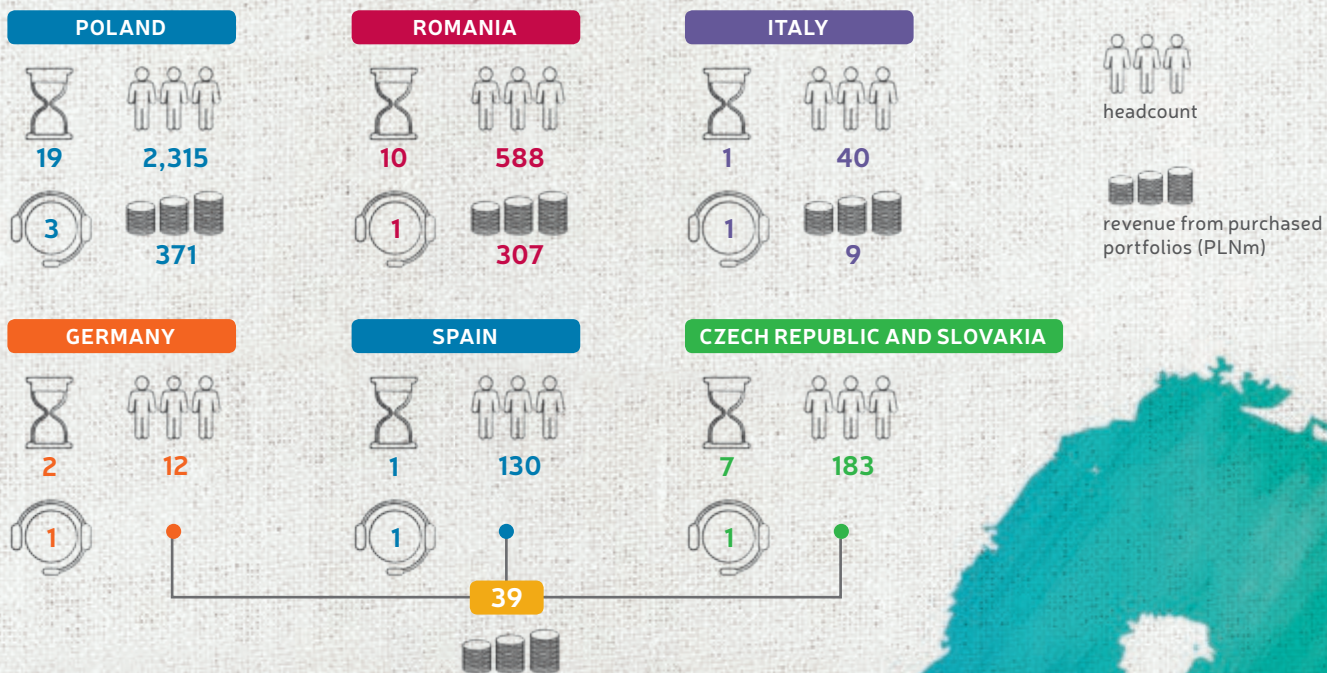
The positive and negative credit information available from the ERIF database allows its clients to effectively support their own risk assessment processes. Business and consumer verification and monitoring services are important preventive measures facilitating prudent and responsible decision-making,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

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

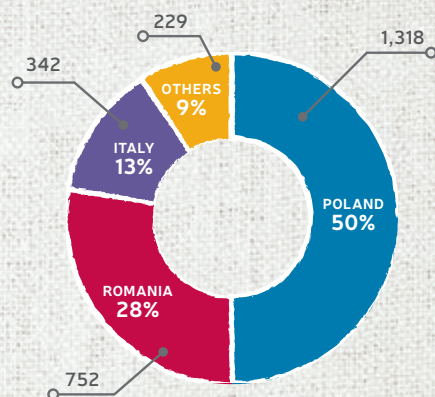
KRUK's markets by geography

The KRUK Group buys and manages debt accounts in seven countries in Europe: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain, promoting a unique strategy of splitting debt into instalments. For an overview of KRUK's markets and business, see Section 4.1 Structure and description of the debt management market.

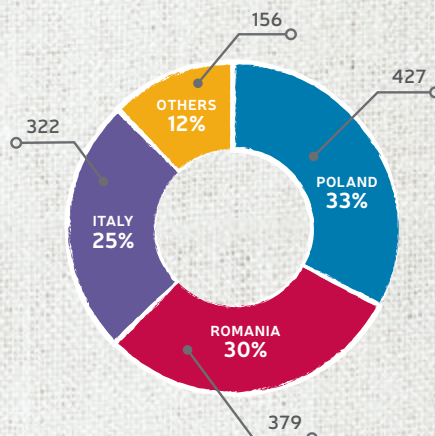
Dec 31 2016



Portfolio carrying amount (PLNm)



Expenditure – FY 2016 (PLNm)



1. Introduction

This Section presents key information on the KRUK Group, its selected consolidated financial and operating data, as well as an overview of the Group's operations in 2016.

1.1 General information on the Parent of the KRUK Group

Form of incorporation of the Parent

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

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

On May 5th 2011, the Company shares and allotment certificates for ordinary bearer shares were introduced to stock-exchange trading on the main market of the

Table 1. Group's financial performance in 2015–2016

	Period ended Dec 31		
	2016	2015	Change
	(PLN '000, unless stated otherwise)		
Revenue	783,398	611,234	28%
EBITDA	362,561	261,919	38%
Operating profit (EBIT)	349,023	251,379	39%
Net profit for period	248,677	204,261	22%
Cash flows from operating activities, including	-622,945	255,864	-
Debt purchases	-1,285,899	-489,282	163%
Cash recoveries	992,406	825,659	20%
Cash flows from investing activities	-74,043	-7,821	847%
Cash flows from financing activities	823,816	36,923	2131%
Total net cash flows	126,642	284,966	-56%
Total assets	3 095 697	1 836 115	69%
Equity	1 237 504	784 244	58%
Return on equity (ROE)*	20%	26%	-23%
Earnings per share (PLN)			
Basic	14.08	11.84	19%
Diluted	13.55	11.48	18%

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

Warsaw Stock Exchange, by way of ordinary procedure, pursuant to the WSE Management Board's Resolutions No. 586/2011 and No. 587/2011.

Contact details

Name: KRUK SPÓŁKA AKCYJNA
Registered office: Wołowska 8, 51-116 Wrocław
Telephone: +48 71 79 02 800
Fax: +48 71 79 02 867
Corporate website: <http://pl.kruk.eu/>

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

1.2 Consolidated financial and operating highlights

1.2.1 Key consolidated financial results

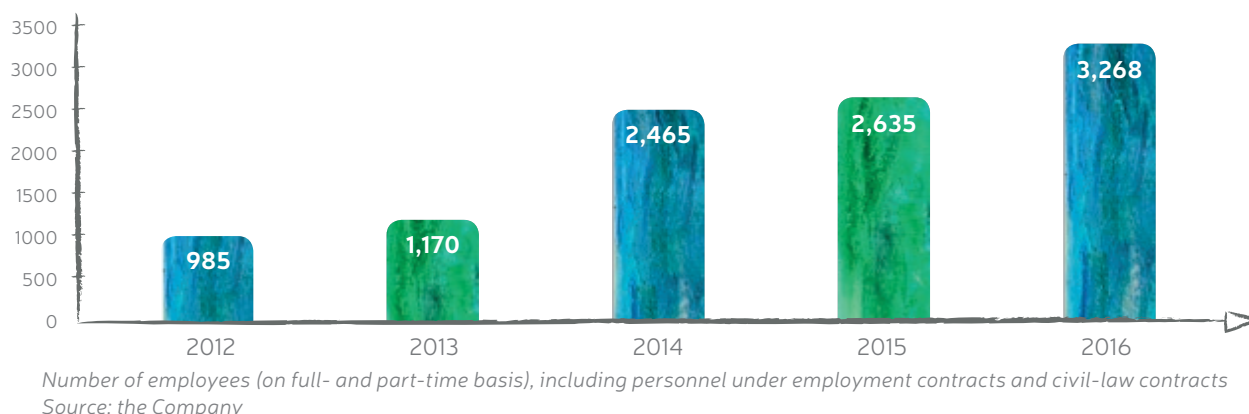
In 2016, the KRUK Group's financial performance continued on an upward trend. The Group posted PLN 783m in revenue (up 22% year on year), PLN 349m in operating profit (up 28% year on year), and PLN 249m in net profit (up 18% year on year).

Table 2. Movements in purchased debt portfolios in 2016

PLN '000	
Value of purchased debt portfolios as at Jan 1 2015	1,366,537
Purchase of debt portfolios	489,282
Cash recoveries	(825,659)
Increase/(decrease) in liabilities to debtors due to overpayments	458
Valuation of loyalty scheme	4,318
Revenue from debt purchase (interest and revaluation)	563 646
Translation differences on debt portfolios	(450)
Value of purchased debt portfolios as at Dec 31 2015	1,598,132
Value of purchased debt portfolios as at Jan 1 2016	1,598,132
Purchase of debt portfolios	1,285,899
Purchase price adjustment for discount	(1,209)
Cash recoveries	(992)
Real property value	(6,551)
Increase/(decrease) in liabilities to debtors due to overpayments	1 024
Valuation of loyalty scheme	5,173
Revenue from debt purchase (interest and revaluation)	724 931
Translation differences on debt portfolios	25,953
Value of purchased debt portfolios as at Dec 31 2016	2,640,946

Source: Consolidated Financial Statements

Chart 1. Employment at the KRUK Group in 2012–2016



1.3 Overview of the Group's operations in 2016

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

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

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

The headcount in all Group companies at the end of 2016 totalled 3,268, relative to 2,635 at the end of 2015.

1.3.1 Financial performance

In 2016, the Group's revenue grew 28% year on year, to PLN 783m. In the same period, the KRUK Group reported

a net profit of PLN 249m, up 22% year on year. Return on equity (ROE), excluding the issue of Series G shares in December 2016, reached 24%, relative to 26% in the previous year. Detailed analysis of the financial results is presented in Section 3.2 Analysis of the consolidated financial data.

In 2016, the Group's revenue

grew **28%**
year on year, to

PLN 783m.

In Table 3 presented key items of the statement of profit or loss for the last five financial years. The Group's financial results have been steadily improving. From 2012, the Group's revenue rose 128% (CAGR of 23%), and net profit improved 206% (CAGR of 32%). Over the same period, EBIT and EBITDA went up 155% and 152%, respectively.

Table 3. KRUK Group's financial performance in 2012–2016

(PLN '000)	2016	2015	2014	2013	2012	CAGR '16/'12
Revenue	783,398	611,234	487,920	405,611	342,992	23%
EBITDA	362,561	261,919	219,519	162,274	144,008	26%
EBIT	349,023	251,379	208,161	152,945	136,673	26%
Profit before tax	286,348	209,777	152,838	98,487	85,094	35%
Net profit	248,677	204,261	151,802	97,754	81,194	32%

Source: Consolidated Financial Statements

1.3.2 Key financial ratios

In Table 4 presented key profitability ratios of the KRUK Group for 2012–2016.

1.3.3 Operating activities

As at the end of 2016, the KRUK Group managed 5.0m debt collection cases (in purchased portfolios and as part of credit management services), compared with 3.3m at the end of 2015. The nominal value of managed debts as at the end of 2016 was PLN 40.5bn, relative to PLN 31.4bn at the end of 2015. Summary of operating results is presented in Table 5.

1.3.4 Investments in debt portfolios

The increase in nominal value of managed debts in 2016 resulted mainly from significant investments in 99 debt portfolios with an aggregate nominal value of PLN 16.4bn and a total of 2.3m cases. In 2016, the Group's investments totalled PLN 1,283m (including the acquisition of a portfolio from P.R.E.S.C.O.). The majority of portfolio investments were unsecured retail debt portfolios purchased from banks. The portfolios had a positive effect on the Group's results for 2016, and will continue to be an important driver of the Group's performance in the years to come. To compare, in 2015 the Group invested PLN 489m in 86 debt portfolios with an aggregate nominal value of PLN 4.9bn.

In 2016, the Group purchased portfolios in Poland and six foreign markets: Romania, the Czech Republic, Slovakia, Germany, and Italy. Expenditure outside of Poland amounted to PLN 856m (relative to PLN 231m in 2015). Summary of debt portfolios purchased in 2015–2016 is presented in Table 6.

Table 4. Profitability ratios of the KRUK Group in 2012–2016

	2016	2015	2014	2013	2012
EBITDA margin	46%	43%	45%	40%	42%
EBIT margin	45%	41%	43%	38%	40%
Pre-tax margin	37%	34%	31%	24%	25%
Net profit margin	32%	33%	31%	24%	24%
Return on assets (ROA)	8%	11%	10%	8%	8%
Return on equity (ROE)	24%*	26%	26%	24%	26%

* Equity exclusive of Series G shares issued in December 2016

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

Table 5. Summary of operating results as at the end of 2015 and 2016

	Dec 31 2016	Dec 31 2015
Number of managed cases (millions)	5.0	3.3
Nominal value of managed cases (PLNbn)	40.5	31.4

Source: the Company

Table 6. Summary of debt portfolios purchased in 2015–2016

	2016	2015
Number of purchased debt portfolios	99	86
Nominal value of purchased debt portfolios (PLNm)	16,440	4,926
Expenditure on debt portfolios (PLNm)	1,286	489

Source: the Company

Table 7. Expenditure in 2015 and 2016, by country (PLNm)

Country	2016	2015
Poland	427	258
Romania	379	157
Czech Republic and Slovakia	42	41
Italy	322	19
Germany	34	14
Spain	82	-
Total	1,286	489

Source: the Company

One-third of the expenditure was incurred in Poland, chiefly on unsecured retail debt portfolios. In terms of the amounts invested, Poland was followed by Romania and Italy.

1.3.5 Credit management services

Throughout 2016, the nominal value of debts outsourced to the Group for collection was PLN 4.3bn (relative to PLN 4bn in 2015). In 2016, banks were the main clients of the credit management segment. Credit management services remain an important element of the Group's strategy, as they are profitable and generate synergies with the debt purchase segment.

1.3.6 Other products and services

As part of its loss prevention services and to support debt management, the KRUK Group operates ERIF Biuro Informacji Gospodarczej (a credit reference agency), which collects both negative and positive consumer and corporate credit histories. ERIF operates under the

Act on Access to Business Information and Exchange of Business Information, which defines the rules for the operation of a business information exchange system in Poland. ERIF is one of the four business information agencies, but the only such agency in Poland to have its database reviewed quarterly by an independent auditor.

As at January 3rd 2017, the ERIF database contained 6.3m records, showing debts with a total nominal value of PLN 27.3bn, a 57% and 34% year-on-year increase, respectively. Revenue generated from ERIF BIG's information services in 2016 was PLN 8.9m, having grown by 22% year on year.

In order to diversify its revenue sources, in 2016 the KRUK Group also worked on developing a short-term cash loan service for formerly indebted individuals in Poland and Romania who have a track record of repaying their liabilities to the Group in a timely manner. In 2016, companies of the KRUK Group (KRUK S.A. and (since November 2016) NOVUM FINANCE Sp. z o.o.) advanced 7.5 thousand cash loans of PLN 41.3m. In 2016, revenue from cash loan service amounted to PLN 16.8m, up 66% year on year.





General information about the Group

- Business model
- Structure
- Share capital
- Human capital

2. General information about the Group

2.1 Business model

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

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

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

Since mid-2008, the Group has consistently pursued a strategy of amicable settlement with debtors. The strategy perceives indebted individuals as consumers unable to meet their obligations for various reasons, be it economic problems or other personal difficulties. The Group supports its amicable settlement strategy through, among other things, advertising campaigns run in the media. In 2016, the theme of indebtedness and solution to debt problems was again featured in "Ojciec Mateusz", one of the most popular TV series shown on Polish public TV channel TVP1 as part of the KRUK Group's idea placement campaign. For a full description of marketing and PR activities, see Section 4.5.3 The Group's marketing and PR activities.

In 2007, the Group launched its operations on the Romanian market, and in 2011 – on the Czech and Slovak markets. KRUK Deutschland was established in 2014 and a year later KRUK bought its first debt portfolios in Germany. Also in 2015, two more companies were established – in Italy and Spain. KRUK acquired its

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

Current business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Spain	Italy
Debt portfolio purchases	Consumer	●	●	●	●	◐	◐	◐	○	○
	Mortgage	●	●	○	○	○	○	○		
	Corporate	●	●	○	○	○	◐	○		
Debt collection outsourcing		●	●	●	●	◐	●	◐		
Consumer loans		●	◐							
Credit information		●	○	○	○	○	○	○		

● – Fully operational ◐ – Partly operational / Launch of the process

○ – Planned launch of operations / Planned analysis of potential

Source: the Company

first debt portfolio on the Italian market still in 2015, and on the Spanish market – early in 2016. In 2016, the Group expanded its operations on the new markets and acquired two local entities: Credit Base International in Italy, and Grupo Espand in Spain. Earlier, the Group cooperated with these entities on portfolio valuations and debt management.

The existing business lines and the Group's growth potential are presented in Figure 1.

Management of purchased debt portfolios

From 2002 to the end of 2016, the KRUK Group purchased 555 debt portfolios with a total nominal value of approximately PLN 43bn. The Group purchases debt portfolios in seven geographic markets: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain. The number of debt cases purchased by the Group in 2002–2016 was 6m, and in 2016 alone the Group purchased 2.2m cases. Each debt portfolio transferred to the KRUK Group is thoroughly analysed and valued based on detailed information and data about the debtors, products and related security, behavioural data, as well as information on current and expected macroeconomic conditions in a given market. Debt portfolios are valued with the use of advanced statistical tools and behavioural data, which the Company has been accumulating since 2003. By the end of 2016, the Group performed approximately 3,000 debt portfolio valuations. In the case of its new markets, i.e. Germany, Italy, and Spain, the Group also draws on the experience of local companies it acquired in 2016: Credit Base International in Italy, and Grupo Espand in Spain. In purchased debt management, the Group's main strategy provides for out-of-court settlement with debtors based on mutually agreed optimum terms of debt repayment reflecting the debtor's current financial capabilities. This approach to debt collection is more effective, as it involves spreading repayment over instalments which the debtor is able to pay.

Credit management services

The Group manages receivables for third parties, applying instruments suited to a given debt portfolio (service period, tools and processes used) and the client's specific requirements. The activities are carried out in a professional manner, in accordance with applicable laws. The Group makes extensive use of efficient operational methods which rely on advanced IT systems, such as the Delfin platform, which supports the entire credit



Since
mid-2008, the Group
has consistently pursued
**a strategy of
amicable settlement
with debtors.**

The strategy perceives indebted individuals as consumers unable to meet their obligations for various reasons, be it economic problems or other personal difficulties.

management process. The Group's innovative offering in Poland includes credit reference agency services (ERIF), and legal services provided by the Group's law firm (Kancelaria Prawna RAVEN), enabling the Group to provide a full range of tailor-made services, in line with the client's requirements and credit management policies. In 2016, the nominal value of debts outsourced to the Group for collection was PLN 4.3bn.

Other services – ERIF and Novum

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

As part of the Novum service, the Group offers short-term cash loans to persons who have repaid or will soon repay their debts to the Group. As part of the Novum business line, consumer loans of up to PLN 10,000 are granted for periods from 3 to 30 months. In late 2016, loans began to be sold on the open market through a recommendation scheme under which individuals can earn money by recommending NOVUM loans. At the same time, sales of NOVUM loans were also launched in Romania.

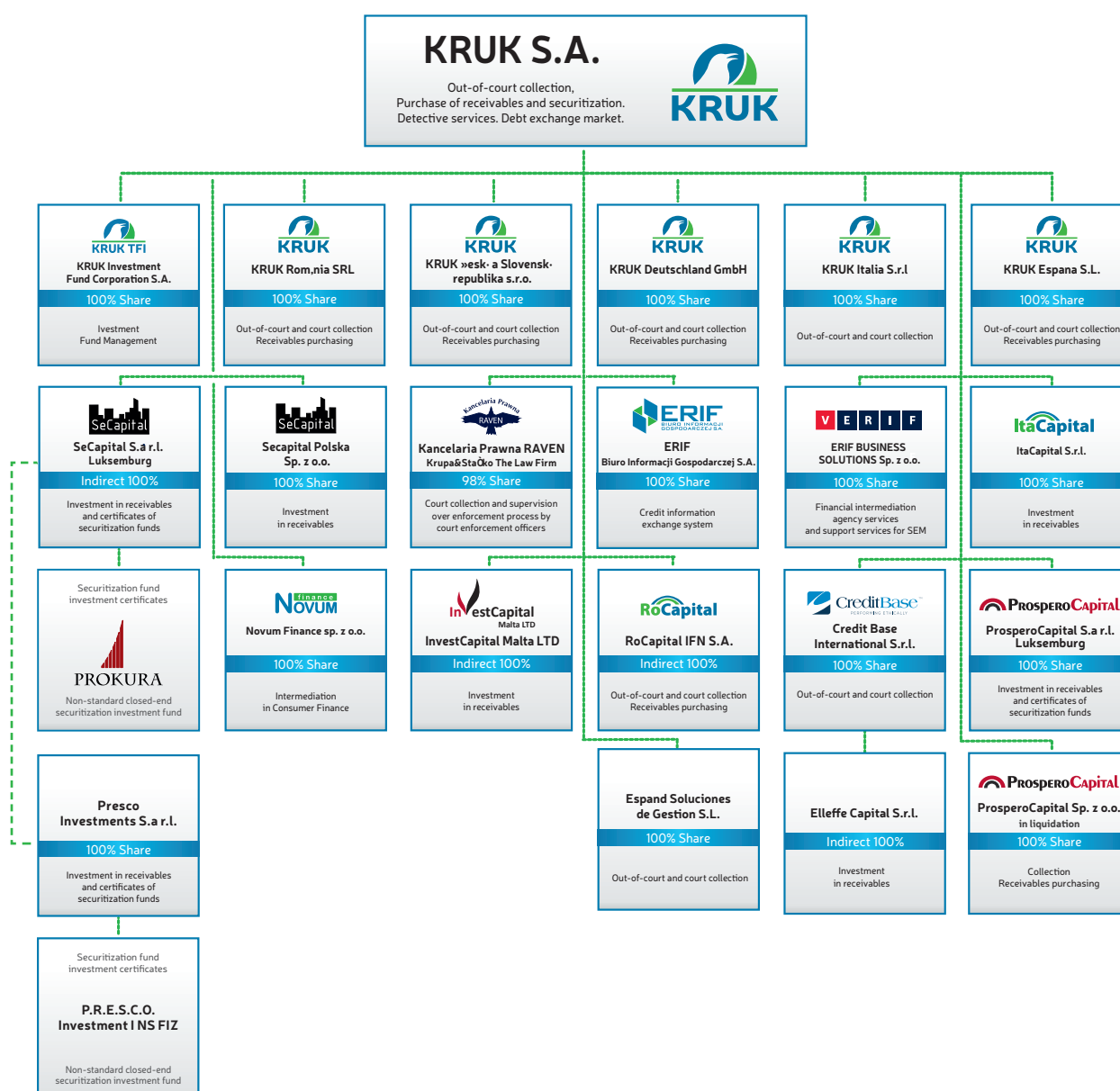
2.2 Structure

2.2.1 Description of the Group's structure

The structure of the KRUK Group as at December 31st 2016 and KRUK S.A.'s ownership interests in subsidiaries are presented in Figure 2.

As at December 31st 2016, the Group comprised KRUK S.A. (the Parent) and 23 subsidiaries. The subsidiaries are presented in Table 8.

Figure 2. Structure of the KRUK Group



Source: the Company

Table 8. KRUK S.A. subsidiaries

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

Table 8. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
P.R.E.S.C.O. securitisation fund Investment I NS FIZ	N/A	Securitisation and investment vehicle which employs professional risk assessment and credit management methodologies. All certificates issued by the fund are held by Presco Investments S.a r.l.
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Credit Base International S.r.l.	La Spezia	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
Espand Soluciones de Gestion S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain

Source: the KRUK Group

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

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

2.2.2 Changes in the Group's structure in 2016

Changes in the Group's structure in 2016 and by the date of this report are presented below.

ERIF Biuro Informacji Gospodarczej Spółka Akcyjna

On August 16th 2016, the Extraordinary General Meeting of the company then operating as Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. passed a resolution to change the company's name. Following registration of the amendment to the company's Articles of Association in the National Court Register, i.e. as of September 22nd 2016, the company's name is ERIF Biuro Informacji Gospodarczej Spółka Akcyjna. The

company may also use its abbreviated names: ERIF Biuro Informacji Gospodarczej S.A., or ERIF BIG S.A.

NOVUM FINANCE Spółka z ograniczoną odpowiedzialnością

By its resolution of July 29th 2016, the company's Extraordinary General Meeting revoked the decision to liquidate the company. Ms Agnieszka Kułton was appointed member of the company's Management Board.

Credit Base International S.r.l.

On November 7th 2016, the Company concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy, for acquisition of all the shares in Credit Base International S.r.l.

Elleffe Capital S.r.l.

On November 7th 2016, the Company acquired 100% of the share capital of Elleffe Capital S.r.l. of La Spezia, Italy (Credit Base International S.r.l.'s subsidiary), whose business activity includes investment in debt or debt-backed assets.

Espand Soluciones de Gestion S.L.

On December 20th 2016, KRUK S.A. concluded an agreement with the shareholders of Espand Soluciones de Gestion S.L. of Madrid, Spain, for acquisition of all the shares in Espand Soluciones de Gestion S.L.

Prokura NS FIZ Fund investment certificates

In 2016, some of the Prokura NS FIZ Fund's investment certificates were redeemed, which resulted in changes to the register of the Fund's certificate holders. As at the end of 2016, the total number of Prokura NS FIZ investment certificates was 51,333,990 (2015: 61,174,786). SeCapital S.a r.l. is the only investor in Prokura NS FIZ, holding 100% of its investment certificates.

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

In 2016, SeCapital S.a r.l.'s share capital was increased and reduced. As a result, at the end of 2016 its share capital amounted to PLN 944,213,000 (2015: PLN 1,114,579,000). The other changes were described in current reports.

Changes in the share capital of InvestCapital Ltd.

In 2016, InvestCapital Ltd.'s share capital was increased and reduced. As a result, at the end of 2016 its share capital amounted to PLN 1,074,940,000 (2015: PLN 387,240,000). The other changes were described in current reports.

2.2.3 Changes in the Group's significant management policies

In 2016, there were no changes to any significant policies of managing the Parent and its subsidiaries.

2.2.4 Consolidated entities

All Group entities are fully consolidated.

2.2.5 Company branches

The Company has no branches.

2.3 Share capital

2.3.1 Share capital structure

As at December 31st 2016, the Company's share capital totalled PLN 17,744,216 and was divided into 17,744,216 shares with a par value of PLN 1 per share.

Table 9. Structure of the Company's share capital as at December 31st 2016

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	843,876
TOTAL	17,744,216

Source: the Company

As at the date of release of this report, the Company's share capital amounted to PLN 18,744,216 and was divided into 18,744,216 shares with a par value of PLN 1 per share.

Table 10. Structure of the Company's share capital as at the date of release of this report

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	843,876
Series G	1,000,000
TOTAL	18,744,216

Source: the Company

2.3.2 Changes in the share capital and conditional share capital

In Table 11 presents changes in the share capital of KRUK S.A. in 2016

2.4 Human capital

2.4.1 Qualified personnel

A key success factor for the KRUK Group is its highly qualified staff. The Group employs experts with

Table 11. Changes in the share capital of KRUK S.A. in 2016

Date of registration of the shares with the CSDP	Number of new shares	Series	Basis for the increase	Share capital after the change (number of shares)	Details
February 25th 2016	117,398	Series E	Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011	17,515,746	Issue as part of a conditional share capital increase, Current Report* No. 12/2016
June 27th 2016	228,470	Series E	Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011	17,744,216	Issue as part of a conditional share capital increase,
February 7th 2017**	1,000,000	Series G	Resolution No. 4/2016 of the Extraordinary General Meeting of November 29th 2016	18,744,216	CR No. 8/2017

* CR = Current Report

** Date of registration of the share capital increase with the National Court Register; the shares have not been registered with the CSDP until the report issue date

Source: the Company

extensive credit management experience. On the next page presents the Management Board of KRUK S.A.

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

Great emphasis is placed by the Group on employer branding efforts, designed to reach more potential employees and increase awareness of the Group's activities and development opportunities it offers. In 2016, these goals were pursued through the Group's participation in numerous career fairs, meetings with students at Wrocław universities as part of the Group's cooperation with student career centres, and

involvement in "Wro Day" – a special project designed to encourage inhabitants of other Polish cities to work and further their careers in Wrocław. KRUK is also a signatory of the "Diversity Charter".

Table 12 sets out the Group's employment data (full- and part-time positions under employment contracts) as at the dates indicated.

Table 12. Group's workforce in Poland as at December 31st 2016 and December 31st 2015

Company	2016	2015
KRUK S.A.	1,609	1,367
Subsidiaries	1,659	1,268
Total	3,268	2,635

Source: the Company

Table 13 sets out the Group's employment data (full- and part-time positions under employment contracts) by key geographical regions of the Group's operations.

The Management Board of KRUK S.A.



Piotr Krupa – President of the Management Board
Founding shareholder and President of the Management Board since 1998.



Michał Zasępa – Management Board Member, Finance and Risk
Member of the KRUK Supervisory Board in 2005–2010.
Joined the Management Board in 2010, responsible for finance, risk, portfolio valuations, and investor relations.



Agnieszka Kutton – Management Board Member, Purchased Portfolio Operations
Joined KRUK in 2002, initially as debt trading and credit management specialist; in 2003–2006 served as Credit Management Director. Member of the Management Board since 2006.



Urszula Okarma – Management Board Member, Portfolio Purchases and Credit Management
With KRUK since 2002, as Director of the Telephone Collection Department, and Director of the Financial Institutions Division. Member of the Management Board since 2006.



Iwona Słomska – Management Board Member, Human Resources, Marketing and Public Relations
With KRUK since 2004, initially as Marketing and PR Director; since 2009 also responsible for HR as Member of the Management Board.

Table 13. Group's workforce by geographical regions as at December 31st 2016

Geographical regions	2016	2015
Poland	2,315	1,949
Foreign markets	953	686
Total	3,268	2,635

Source: the Company

In 2016, the Group employed personnel both under employment contracts and managerial contracts. It also commissioned work under temporary employment contracts (umowa zlecenia) and piecework contracts (umowa o dzieło).

As the highly-qualified staff is its vital asset, the Group makes every effort to ensure development of its team and to provide optimum working conditions. In 2016, the Group operated:

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

In addition, KRUK S.A. implemented the "Remuneration management policy for the KRUK Group". The policy is a component of informed planning of employee remuneration and is designed to control the rate of increase in employment levels at the Group, in line with the Group's strategy. It applies to all of the Group's employees and forms the foundation for an effective, uniform and transparent remuneration system designed to support the implementation of business objectives.

2.4.2 Incentive Scheme

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

The 2015-2019 Scheme is the second incentive scheme operated by the KRUK Group. Details of the previous 2011-2014 Incentive Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015.

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

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an annualised average basis, by no less than 13% relative to the base year.

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

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

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

Tranche 1

On June 9th 2016, the KRUK Supervisory Board passed a resolution on assessment of the fulfilment of a condition set forth in the Stock Option Scheme for offering Tranche 1 subscription as a reward for meeting the targets set in the 2015-2019 incentive scheme in 2015. The Supervisory Board declared that the condition was met. On June 17th 2016, the Company's Management Board passed a resolution to determine the list of Non-Management Board members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 under the 2015-2019 Stock Option Scheme.

Acting under the resolution, on June 22nd 2016, the Management Board invited the Eligible Persons who are

not Management Board members to acquire Tranche 1 Subscription Warrants. As a result, 86,435 Subscription Warrants were delivered to the Eligible Persons on July 1st 2016.

On August 27th 2016, the Company's Management Board passed a resolution to determine the list of Management Board members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 under the 2015-2019 Stock Option Scheme. The list was amended by the Management Board resolution of October 24th 2016 to amend the list of Management Board members who are Eligible Persons entitled to acquire Tranche 1 Subscription Warrants for 2015 under the 2015-2019 Stock Option Scheme. The resolution was approved by the Supervisory Board's resolution of October 27th 2016. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 Subscription Warrants under the 2015-2019 Stock Option Scheme. On October 27th 2016, 20,000 Subscription Warrants were delivered to the Eligible Persons who were Management Board members.

The Company's Management Board members hold no rights to KRUK shares other than those attached to the subscription warrants presented in Table 14.

Table 14. Number of subscription warrants held by Management Board members as at December 31st 2016

Name and surname	Position	Number of warrants held under Tranche 1 for 2015
Piotr Krupa	CEO and President of the Management Board	7,000
Agnieszka Kułton	Member of the Management Board	3,250
Urszula Okarma	Member of the Management Board	3,250
Iwona Słomska	Member of the Management Board	3,250
Michał Zasępa	Member of the Management Board	3,250

Source: the Company





Operating and financial review

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

3. Operating and financial review

3.1 Policies applied in the preparation of annual consolidated financial statements

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

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

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

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

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

Since 2014, the Group has been measuring its debt portfolios at amortised cost. Debt portfolios are measured at amortised cost, using the effective interest rate method.

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

Debt portfolios are initially recognised on their purchase date at cost equal to the fair value of the consideration transferred increased by any material transaction cost.

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

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

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

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

3.2 Analysis of the consolidated financial data

3.2.1 Revenue by product

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

In Table 15 presented historical cash recoveries from purchased debt portfolios according to their share in the expenditure incurred on their purchase.

In 2016, the Group's total revenue was PLN 783m, up 28% on 2015. The Group continued to pursue the strategy of consolidating its lead in the growing debt collection market. In 2016, the Group focused on the segment of purchased debt collection. As a consequence, revenue from debt purchase in 2016 reached PLN 725m, while revenue from credit management amounted to PLN 32m.

The performance of each reporting segment is discussed in Table 16. The key performance metric for each reporting segment is gross profit.

In 2016, the Group's gross profit was PLN 477m, having risen by PLN 119m, or 33%, on 2015. This strong growth in gross profit was attributable to the result on purchased debt portfolios, with the key contributing factor being high investments made in this market segment both in 2016 and in previous years (in total, over the last five years the Group invested PLN 3bn in new debt portfolios).

Revenue derived from purchased debt portfolios increased 29% from a year earlier, which translated into improved gross profit of the debt purchase segment (up 34% year on year).



Gross profit earned by the credit management segment decreased by PLN 0.3m, or 3%, relative to 2015, primarily on account of the growing competition in credit management on all markets on which the KRUK Group operates.

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

Table 15. Weighted average recovery curve in 2005–2016

Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Cash recoveries in each of the years as % of funds spent	17%	39%	34%	36%	34%	33%	35%	27%	22%	24%	28%	13%	342%

Source: the Company

Table 16. Performance of individual reporting segments

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

Table 16. Performance of individual reporting segments

For the year ended December 31st 2015	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	332,242	258,152	-92	20,933	611,235
Purchased debt portfolios	288,784	254,797	-92	20,157	563,646
Collection services	25,681	3,355	-	776	29,812
Other products	17,776	-	-	-	17,776
Direct and indirect costs					(253,314)
Purchased debt portfolios	-	-	-	-	(225,041)
Collection services	-	-	-	-	(20,610)
Other products	-	-	-	-	(7,664)
Gross profit					
Purchased debt portfolios	-	-	-	-	338,605
Collection services	-	-	-	-	9,202
Other products	-	-	-	-	10,112
Administrative expenses	-	-	-	-	(94,401)
Depreciation and amortisation expense	-	-	-	-	(10,540)
Other income	-	-	-	-	2,589
Other expenses (unallocated)	-	-	-	-	(4,188)
Finance income/costs	-	-	-	-	(41,602)
Profit before tax	-	-	-	-	209,777
Income tax	-	-	-	-	(5,516)
Net profit	-	-	-	-	204,261
Carrying amount of debt portfolios	1,024,398	448,709	19,441	105,584	1,598,132

Source: the Company

3.2.2 Geographical structure of sales

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

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

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

In 2016, the KRUK Group's revenue rose significantly in Poland, Romania, Italy, and in other markets, especially the Czech Republic and Slovakia.

In value terms, the largest increase in revenue was recorded in Poland. Revenue generated on the home market in 2016 was PLN 92m, or 28%, higher year on year, driven by significant recoveries and high investments (of PLN 427m) in debt portfolios.

On the Romanian market, the Group earned revenue of PLN 312m, up PLN 54m, or 21%, over 2015. Similarly to the Polish market, this resulted from high recoveries as well as investments in debt portfolios of PLN 379m.

On the Italian market, the Group earned revenue of PLN 9m, chiefly due to investments made in Italy. In 2016, the Group invested a total of PLN 322m in debt portfolios on the Italian market.

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

The Group's total assets were PLN 3,095m, having grown 69% relative to the end of 2015

The largest increase was posted under investments, and was attributable to debt portfolio purchases. As funds had to be raised to finance the debt purchases, an increase was also recorded in debt under bank borrowings

and other debt instruments (up by PLN 711m). In 2016, the Group purchased debt portfolios for a total of PLN 1.3bn, which means that 45% of the purchases were financed with the Group's own funds.

3.2.4 Financial performance

There are no material risks to the KRUK Group's current or future financial position. In 2016, the Group's net profit was PLN 249m, up PLN 44m (or 22%) year on year.

In 2016, the Group invested PLN 1.3bn in the debt purchase segment.

3.2.5 Cash flows

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

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

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

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

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

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

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

Table 17. Group's assets

As at December 31st 2016 PLN '000	Note	Dec 31 2016	Dec 31 2015
Assets			
Cash and cash equivalents	21	267,384	140,742
Trade receivables	20	13,452	8,391
Investments	17	2,676,202	1,620,579
Other receivables	20	28,145	26,719
Inventories	19	485	587
Property, plant and equipment	14	27,473	19,957
Other intangible assets	15	14,293	11,805
Goodwill	16	62,604	1,024
Deferred tax asset	18	-	2,841
Other assets		5,658	3,469
Total assets		3,095,697	1,836,115

Source: the Company

Table 18. Group's equity and liabilities

As at December 31st 2016 PLN '000	Note	Dec 31 2016	Dec 31 2015
Equity and liabilities			
Liabilities			
Deferred tax liability	18	4,057	-
Hedge derivatives		-	589
Trade and other payables	28	169,248	83,555
Employee benefit obligations	26	34,396	29,239
Current tax liability		4,079	3,178
Liabilities under borrowings and other debt instruments	25	1,646,411	935,011
Rezerwy	27	-	264
Total liabilities		1,858,191	1,051,836
Equity			
Share capital	23	18,744	17,398
Share premium		288,326	64,382
Exchange differences on translating foreign operations		(592)	(7,674)
Other capital reserves		76,658	68,956
Retained earnings		854,354	641,182
Equity attributable to owners of the Parent		1,237,490	784,244
Non-controlling interests		14	34
Total equity		1,237,504	784,278
Total equity and liabilities		3,095,697	1,836,115

Source: the Company

Table 19. Consolidated statement of profit or loss

For the year ended December 31st 2016 PLN '000	Note	Jan 1 2016 – Dec 31 2016	Jan 1 2015 – Dec 31 2015
Revenue	6	783,398	611,234
Other income	7	8,773	2,589
		792,171	613,823
Employee benefits expense	10	(190,778)	(169,432)
Depreciation and amortisation expense	14,15	(13,538)	(10,540)
Contracted services	8	(79,415)	(48,344)
Other expenses	9	(159,417)	(134,128)
		(443,148)	(362,444)
EBIT		349,023	251,379
Finance income	11	363	2,792
Finance costs	11	(63,038)	(44,394)
Net finance costs		(62,675)	(41,602)
Profit before tax		286,348	209,777
Income tax	12	(37,671)	(5,516)
Net profit for period		248,677	204,261
Net profit attributable to:			
Owners of the Parent		248,663	204,227
Non-controlling interests		14	34
Net profit for period		248,677	204,261

Source: the Company

3.2.7 Financial ratios

3.2.7.1 Profitability ratios

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

In 2016, the KRUK Group's pre-tax, EBITDA and EBIT margins improved year on year, while its net margin was down 1 pp.

ROA fell 3 pp due to the strong asset growth related to investment expenditure of PLN 1.3bn, expected to boost net profit in future periods. The KRUK Group's ROE also declined, by 2 pp.

3.2.7.2 Debt ratios

Table 21 presents the key debt ratios of the KRUK Group.

The Group's objective is to maintain a solid capital base to ensure business growth, while maintaining the trust

and confidence of investors, lenders, bondholders and other partners. In order to control the Group's exposure to financial debt, the Management Board of KRUK S.A. monitors its debt ratios on an ongoing basis.

Despite their increase in 2016, the Management Board is of the opinion that they remained at safe levels. For instance, debt ratios measured for the entire Group, specified in the Terms and Conditions of Bonds, were as follows: the net debt to equity ratio stood at 1,1x (the maximum levels are 3.0x for the majority of private placements and 2.5x for issues with a total nominal value of PLN 280m, of which PLN 120m matures in 2017), while the net debt to cash EBITDA ratio was 2,2x (the maximum level is 4.0x).

The increase in debt ratios was driven by a 77% surge in the Group's liabilities, a consequence of high investment expenditure, partly financed from external sources. As the Group's financial liabilities increased, its net profit also grew, by 22% in 2016.

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

Table 20. Profitability ratios

Profitability ratios	Period ended	
	Dec 31 2016	Dec 31 2015
EBITDA margin (operating profit plus depreciation/amortisation)	46%	43%
EBIT margin (operating profit)	45%	41%
Pre-tax margin	37%	34%
Net margin	32%	33%
Return on assets (ROA)	8%	11%
Return on equity (ROE)*	24%	26%

Formulas used to calculate the ratios:

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

EBIT margin – operating profit for the period / total revenue

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

Net margin – net profit for the period / total revenue

ROA – net profit for the period / total assets

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

Source: the Company

Table 21. Debt ratios

Debt ratios	Period ended	
	Dec 31 2016	Dec 31 2015
Total debt ratio	60%	57%
Net financial debt ratio	112%	101%
Debt to equity ratio	150%	134%
Short-term debt ratio	15%	19%
Long-term debt ratio	45%	39%
Net debt to equity ratio	1,1%	1,0%
Net debt to cash EBITDA ratio	2,2%	1,5%
Current ratio	6,3	5,3
Quick ratio	6,3	5,3

Formulas used to calculate the ratios:

Total debt ratio – total liabilities / total equity and liabilities

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

Debt to equity ratio – total liabilities / total equity

Short-term debt ratio – total current liabilities / total equity and liabilities

Long-term debt ratio – total non-current liabilities / total equity and liabilities

Current ratio – total current assets / total current liabilities

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

Source: the Company

Table 22. Bond issues in 2016

Bond Series	Nominal value	Issued	Redeemed	Interest rate	Interest payment
AA ²	PLN 150.0m	March 2016	March 2022	3M WIBOR + 3.25%	Every 3 months
AB ¹	PLN 65.0m	March 2016	March 2021	3M WIBOR + 3.15%	Every 3 months
AC ¹	PLN 57.9m	May 2016	May 2022	3M WIBOR + 3.25%	Every 3 months
AB ²	PLN 135.0m	May 2016	May 2021	3M WIBOR + 3.15%	Every 3 months
AD ¹	PLN 50.0m	June 2016	June 2019	3M WIBOR + 2.50%	Every 3 months
AB ³	PLN 65.0m	June 2016	June 2021	3M WIBOR + 3.15%	Every 3 months
AA ³	EUR 20.0m	August 2016	August 2019	fixed 3.00%	Every 12 months
AB ⁴	PLN 35.0m	September 2016	September 2021	3M WIBOR + 3.15%	Every 3 months
AA ⁴	PLN 75.0m	October 2016	October 2022	3M WIBOR + 3.25%	Every 3 months
AA ⁵	PLN 75.0m	October 2016	October 2019	3M WIBOR + 2.50%	Every 3 months
AF ¹	PLN 40.0m	December 2016	December 2021	3M WIBOR + 3.15%	Every 3 months
Total	PLN 833.3m				

Source: the Company

3.3 Securities issued

3.3.1 Company shares

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

3.3.2 Company bonds

In 2016, the Company issued 11 series of unsecured bonds (in private placements and public offerings) with a total value of PLN 833.3m, which included:

- ten series of PLN-denominated bonds with a total nominal value of PLN 747.9m;
- one series of EUR-denominated bonds with a total nominal value of EUR 20m (PLN 85.4m).

The bonds were issued at par.

Redemption of bonds

In 2016, the Company redeemed the debt securities specified in Table 23 on the maturity dates set forth in the terms and conditions of relevant series.

Liabilities under bonds

As at December 31st 2016, the liabilities under outstanding bonds issued by the Company stood at PLN 1,372m (at nominal value).

3.4 Financial instruments

3.4.1 Use of financial instruments

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

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

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

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

Derivatives

In 2016, three interest rate swap (IRS) contracts executed between the Company and Bank Zachodni WBK in 2013 expired:

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

Table 23. Bonds redeemed by the Company in 2016

Bond Series	Redeemed	Number of bonds redeemed	Nominal value
M ¹ + N ¹	March 2016	84,000	PLN 84m
O ¹	November 2016	30,000	PLN 30m
O ² + P ¹	December 2016	40,000	PLN 40m
		total	PLN 154m

Source: the Company

on Series O2 and P1 bonds with a nominal value of PLN 40m. Payments were made every three months (interest period). Under the contract, the Company paid at a fixed rate of 3.30%, while Bank Zachodni WBK paid at a floating rate equal to 3M WIBOR. The contract expired on June 6th 2016.

3.4.2 Financial instrument risk exposure

3.4.2.1 Credit risk

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

3.4.2.2 Liquidity risk

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

3.4.2.3 Market risk

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

Currency risk

Exposure to currency risk is identified by the Group in connection with its intensive foreign expansion. The Group is increasing the volume of investment in portfolios denominated in the euro. If there is no access to

euro-denominated financing, such investment may partly be financed with debt contracted in the złoty. In such circumstances, there is a risk that the Group may incur additional costs related to currency conversion or the Group's liquidity may deteriorate due to adverse changes in foreign exchange rates.

Interest rate risk

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

3.4.3 Objectives and methods of financial risk management

The Group's risk management policies are established to identify and analyse the Group's risk exposure, to set appropriate risk limits and controls, and to monitor risks and compliance with the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Group's activities. Through appropriate training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Assets relating to credit risk are presented in Table 24.

3.4.3.1 Credit risk

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

Table 24. Assets relating to credit risk

PLN '000	Note	Dec 31 2016	Dec 31 2015
Financial instruments at fair value through profit or loss	18	603,658	724,832
Financial assets measured at amortised cost	18	2,037,288	873,300
Loans	18	28,476	22,013
Receivables	21	41,597	35,110
		2,711,019	1,655,255

Source: the Company

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

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

3.4.3.2 Liquidity risk

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

Liquidity risk management tools used at the Group include:

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

3.4.3.3 Market risk

The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits. In the process of market risk management, the Group selects optimum financing sources for its planned investment projects, analyses macroeconomic trends and monitors changes in its key currency exchange and interest rates. Moreover, under a framework agreement with a bank, the Group may enter into derivative contracts to hedge the currency and interest rate risk.

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

3.5.1 Material events during the financial year

Events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in 2016 are discussed in detail in other sections of this report. Such events include primarily significant

agreements concluded in the course of business, which are discussed in detail in "Agreements executed by the KRUK Group".

3.5.2 Non-recurring factors and events

In 2016, the Company's business was not affected by any non-recurring factors or events.

3.6 Assessment of financial resources management

3.6.1 Financial forecasts

The KRUK Group did not publish any financial forecasts for 2016.

3.6.2 Assessment of future financial standing

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

In the opinion of the Management Board, there are no significant risks to the Group's current or future financial position related to its management of financial resources. The Company is able to monitor and service its debts, and manages its financial resources in a reasonable way.

3.7 Dividend policy

3.7.1 Historical data on dividend payments

Information on dividend payments in the last five financial years is presented in Table 25.

For the calendar of events related to dividend payment in 2016, see Table 26.

In the reporting period and as at the date of authorisation of this report, KRUK S.A. received a total of PLN 20.03m, PLN 103.6m and PLN 1.9m as profit distributions from SeCapital S.a r.l., a Luxembourg-based subsidiary Invest-Capital Malta Ltd., a subsidiary, and Kancelaria Prawna Raven Krupa & Stańko sp. k., respectively. Kancelaria Prawna Raven Krupa & Stańko Sp. k. also paid PLN 1,7m to its general partners as a profit distribution in 2016.

3.7.2 Dividend policy

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

3.8 Auditors

On July 8th 2016, the Company and Ernst and Young Spółka z ograniczoną odpowiedzialnością sp. k. executed an agreement for the audit of separate and consolidated financial statements for 2016 and review of separate and consolidated financial statements for H1 2016. The fee for auditing the full-year separate financial statements of the Company, auditing the full-year financial statements of subsidiaries, reviewing the full-year financial statements of subsidiaries, and auditing the full-year consolidated financial statements and half-year financial statements review was set at PLN 999 thousand (2015: PLN 481 thousand); and the fee for other assurance – at PLN 25 thousand (2015: PLN 0 thousand). The separate and consolidated financial statements for 2015 were audited by Ernst and Young Spółka z ograniczoną odpowiedzialnością sp. k.

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

Profit for the year	2010	2011	2012	2013	2014	2015
Dividend payment date					July 24th 2015	July 29th 2016
Dividend per share (PLN)	-	-	-	-	1.5	2
Total dividend (PLNm)	-	-	-	-	25.9	35.495

Source: the Company

Table 26. Calendar of events related to dividend payment in 2016

Date	
February 26th 2016	Management Board's resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 2 per share from the net profit earned in the period January 1st–December 31st 2015
March 3rd 2016	Supervisory Board's resolution to approve the Management Board's recommendation on the allocation of KRUK S.A.'s net profit for 2015
July 9th 2016	Annual General Meeting's resolution on the allocation of KRUK S.A.'s 2015 net profit in line with the Management Board's recommendation
July 8th 2016	Dividend record date; The dividend is to be paid on 17,515,746 KRUK S.A. shares.
July 29th 2016	Dividend payment date

Source: the Company





The Group's operations and development directions

- Structure and description of the debt management market
- Legal and regulatory environment
- Geographical markets of the Group's operations
- Key factors with a bearing on the Group's core business and revenue sources
- Strategy overview and business prospects
- Development directions and prospects of the Group
- The Group's investment programme
- Risk factors internal factors
- Agreements executed by companies of the KRUK Group
- Court, administration and arbitration proceedings
- Material events after December 31st 2016
- Major research and development achievements
- Environmental issues

4. The Group's operations and development directions

4.1 Structure and description of the debt management market

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

- **Management of purchased debt portfolios**

Management of purchased debt portfolios is the principal area of the KRUK Group's activities. The Group has an extensive knowledge base, specialised methods of valuation, access to financing and appropriate transaction structures, which allow it to purchase debt portfolios on all seven markets in which it is present. The Group is prepared to invest in debts of all types: secured and unsecured consumer debts, including mortgage debts, as well as SME and corporate debts, but the preferred category are unsecured consumer debt portfolios. The nominal value of the portfolio of debts purchased by the Group since the beginning of its operations is PLN 43.1bn.

- **Credit management services**

The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. The Group focuses on the banking market and relies on long-term relations with key accounts. In 2016, the Group managed a portfolio of debts with a nominal value of PLN 4.4bn.

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

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

The Group's primary markets in 2016 were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain. The KRUK Group also purchased corporate debt.

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

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

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

The Group's primary markets in 2016 were the markets of unsecured and secured debt to banks in **Poland and Romania**, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain.

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

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

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

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

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

include trade investors (credit management companies), and financial investors (investment and hedge funds).

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

4.1.1 Poland

According to the Group's estimates, the nominal value of debt transferred for collection by third parties in Poland in 2016 was PLN 28.2bn (2015: PLN 25.0bn). This amount comprised two segments:

- the debt purchase segment – portfolios with a total nominal value of PLN 16.6bn (up by 4%, from PLN 16.0bn in 2015);
- the credit management segment – cases with a nominal value of PLN 11.6bn (2015: PLN 9.0bn).

Debt purchase market

In 2016, the nominal value of purchased debt portfolios totalled PLN 16.6bn, with unsecured retail debt as the largest item at PLN 14.7bn, up from PLN 12.0bn in 2015. The supply of mortgage-backed debt portfolios was valued at PLN 1.1bn, compared with PLN 2.2bn in 2015. In the corporate debt segment, the nominal value of purchased debt portfolios was PLN 0.8bn in 2016, against PLN 2.1bn in 2015.

The Group's investments in debt portfolios in Poland totalled PLN 427m, relative to PLN 258m in 2015. In 2016, the Group's share in the debt portfolio purchase market was 25%, compared with 13% a year earlier. Purchases of unsecured retail debt accounted for the largest share of the Group's purchases in Poland.

Credit management

The nominal value of cases outsourced to credit managers in 2016 stood at PLN 11.6bn and was 28% higher than in 2015. In 2016, banks continued to be the largest client group in the credit management segment.

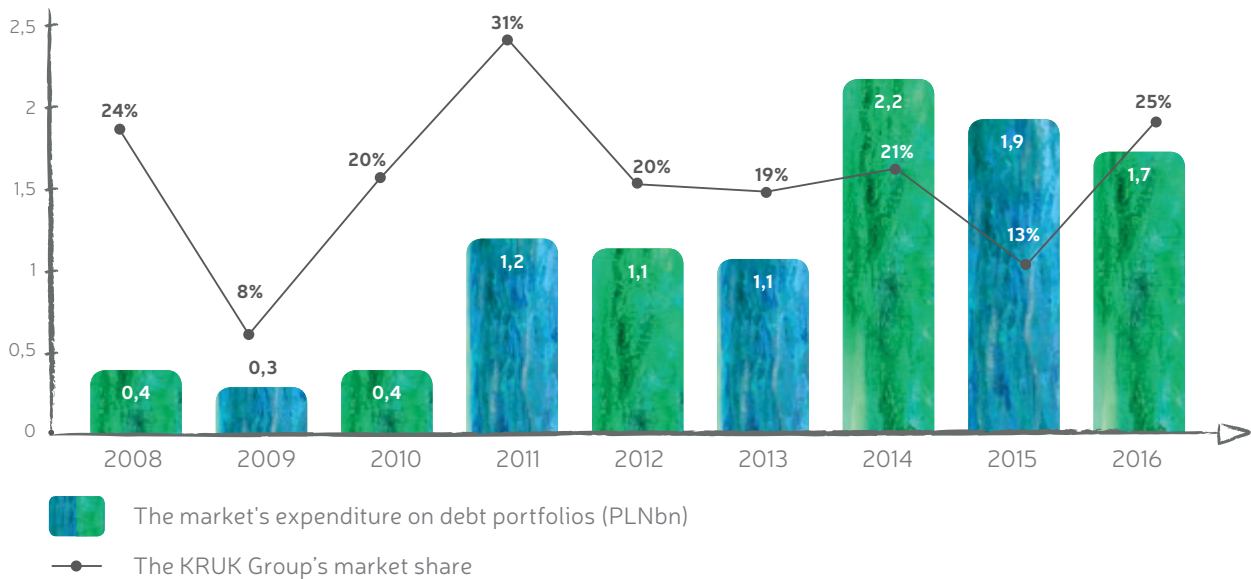
The Group estimates that in 2016 it was the leader of the Polish credit management market, with a 34% share in the nominal value of debts outsourced for collection, compared with 40% in 2015. The Group focused chiefly on the financial services market, in particular non-performing bank debts.

Competitive environment in Poland

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

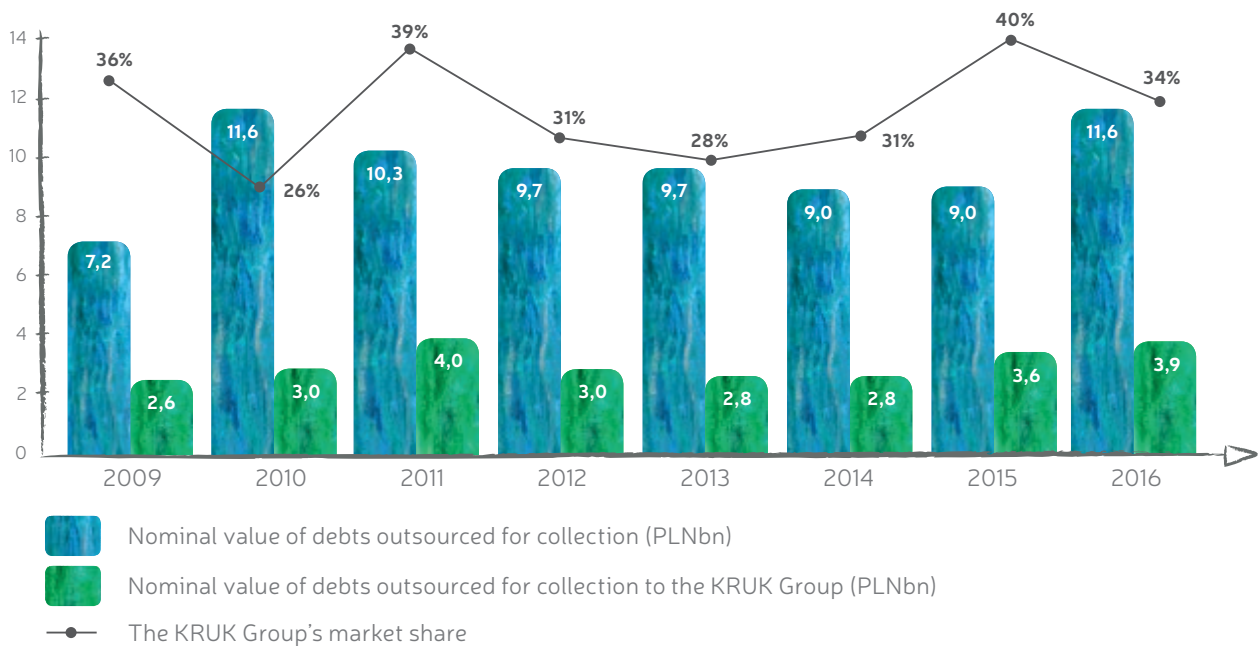
The Group's leading position on the Polish credit management market in 2015 was confirmed by the industry ranking published by the *Gazeta Giełdy Parkiet* daily. In 2015, the total nominal value of debts accepted for collection or purchased by the KRUK Group in Poland reached PLN 5.7bn, giving it the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

Chart 2. Total value of the market's expenditure on debt portfolios in Poland (PLNbn) and the Group's estimated market share in 2009–2016



Source: the Group's estimates

Chart 3. Nominal value of debts outsourced for collection to the KRUK Group in Poland, and the Group's market share in 2009–2016 (PLNbn)

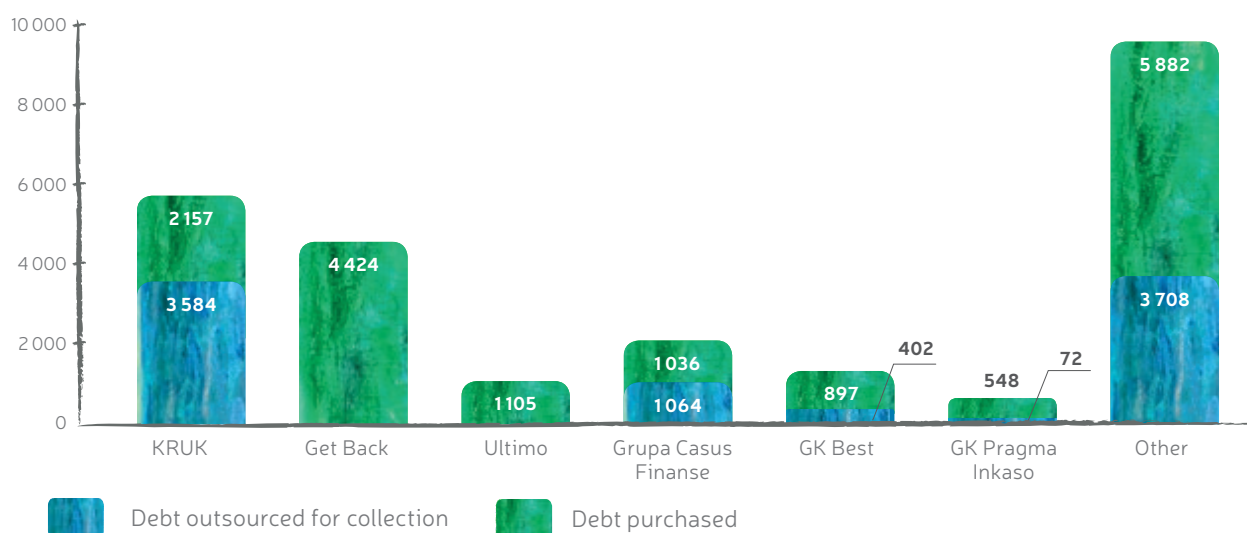


Source: the Group's estimates

data. The Gazeta Giełdy Parkiet daily did not publish any update of the ranking for 2016.

Table 27 includes the entities which provided Gazeta Giełdy Parkiet with data on the value of debts purchased and accepted for management on the Polish market in 2014 and 2015.

Chart 4. The Group versus competitors in Poland in 2015



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

Table 27. Structure of the debt management market by market shares of debt collection agencies, based on the value of cases processed in Poland in 2015 (PLNm)

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

Source: Gazeta Giełdy Parkiet, February 1st 2016

4.1.2 Foreign markets

4.1.2.1 Romania

According to the Group's estimates, in 2016 the nominal value of debt sold or outsourced for collection by banks and other entities on the Romanian market totalled PLN 13.4bn (2015: PLN 8.7bn), of which:

- the nominal value of debt portfolios sold was PLN 8.9bn, compared with PLN 4.4bn in 2015;
- the nominal value of debt portfolios outsourced for management was PLN 4.5bn, compared with PLN 4.2bn in 2015.

The increased supply of debt on the Romanian market was attributable, among other things, to the largest ever debt sale transaction on that market. Together with the World Bank, KRUK purchased a debt portfolio with a nominal value of PLN 2.6m from the Eurobank Group.

In 2016, the Group's expenditure on Romanian debt portfolios amounted to PLN 379m (most of which was spent on retail portfolios), compared with PLN 158m in 2015. The 2016 expenditure gave the Group a 35% share in the debt purchase market, compared with 37% in the previous year.

In 2016, in Romania, the Group accepted for management debts with a nominal value of PLN 353m, compared with PLN 360m in 2015.

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

4.1.2.2 Czech Republic and Slovakia

According to the Company's estimates, the value of the market for consumer debt purchases in the Czech Republic and Slovakia in 2016 was PLN 1.7bn in nominal terms, whereas the total expenditure on debt portfolios in this segment totalled PLN 0.3bn. In each of the years 2015 and 2016, the KRUK Group spent a total of PLN 41m on consumer debt portfolios on both markets.

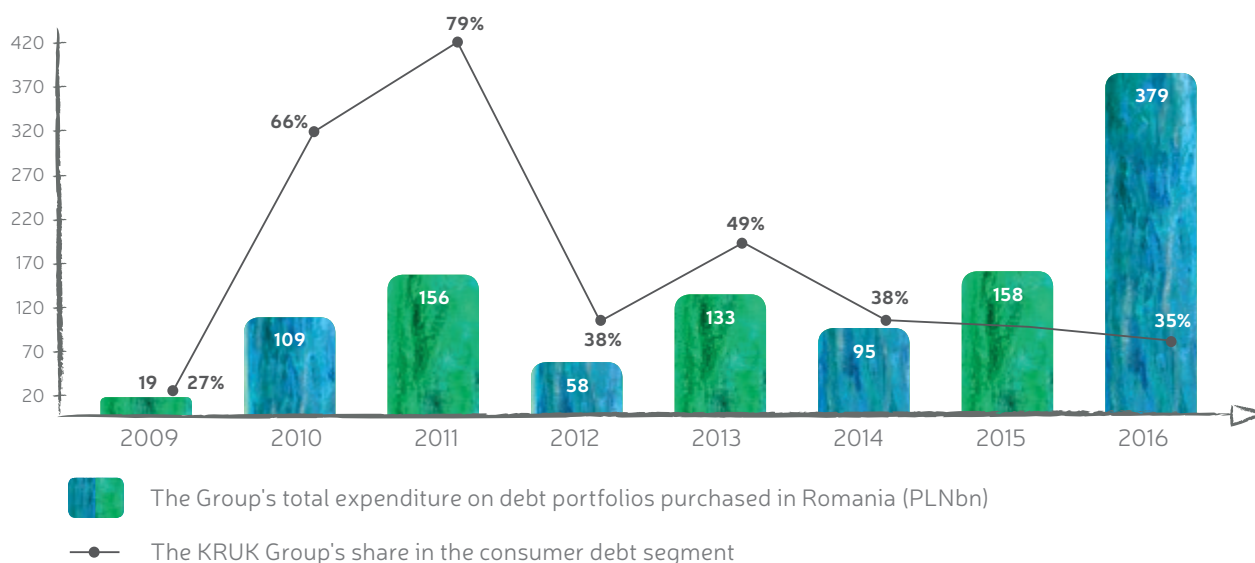
The credit management sector in the Czech Republic and Slovakia is highly fragmented among a large number of domestic and foreign companies.

4.1.2.3 Germany

The Group has been present on the German market since 2014. In August 2015, it purchased its first debt portfolios on that market, continuing purchases in 2016. Its 2016 expenditure on debt portfolios reached PLN 33m, relative to PLN 13m in 2015.

According to the German central bank, the aggregate value of loans advanced by the German banking sector is EUR 2.4 trillion. Based on publicly available information,

Chart 5. Expenditure on consumer debt portfolios purchased by the Group on the Romanian market (PLNm), and the market share in 2009–2016



Source: the Group's estimates

loss ratio on the German market is around 3% and has been stable for several years.

4.1.2.4 Italy

The Group has been present on the Italian market since 2015, when it established KRUK Italia S.r.l. and ItaCapital S.r.l. KRUK Italia S.r.l.'s principal business activities consist in credit management services and collection of debt portfolios purchased by the KRUK Group in Italy. ItaCapital is a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets.

In 2016, the Group made further debt purchases. The expenditure in 2016 totalled PLN 322m, versus PLN 20m in 2015.

In 2016, the Group signed an agreement to acquire Credit Base International S.r.l. (CBI) of La Spezia, Italy. CBI's business involves the management of purchased debt portfolios and credit management services in Italy. Its consolidated revenue in 2015 reached EUR 2.2m.

Under the agreement, the Group also acquired Elleffe Capital S.r.l. of La Spezia, Italy (CBI's subsidiary), whose business activity includes investment in debt or debt-backed assets. Earlier, the Group cooperated with CBI on portfolio valuations and debt management.

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

4.1.2.5 Spain

The Group established its presence in Spain in 2015, when it set up KRUK Espana S.L. and performed the first valuations of debt portfolios in Spain. In 2016, the company made further valuations of debt portfolios and the first purchases of unsecured consumer debts. The expenditure made by the Group in 2016 on the Spanish market totalled PLN 82m.

Also in 2016, the Group signed an agreement to acquire Espand Soluciones de Gestion S.L. of Madrid. Espand's business involves the management of purchased debt portfolios and credit management services in Spain. Its consolidated revenue in 2015 reached EUR 4.1m. Earlier, the Group cooperated with Espand on

portfolio valuations and management of purchased debt portfolios.

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

4.2 Legal and regulatory environment

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

In particular, the Group's operations comply with the applicable laws and regulations on competition and consumer protection. Given the nature of its operations, the Group is exposed to the risk that the President of the Polish Office of Competition and Consumer Protection (UOKiK), or another competent consumer protection authority (particularly abroad), finds that the Group's activities infringe on collective consumer interests or that the Group applies abusive clauses in its contract templates. Also, there is a risk that the UOKiK President, or another competition protection authority, may bring abuse charges against entities holding a dominant market position. On concluding that such abuse exists, the UOKiK President, or another competition protection

authority, may demand that the abuse of dominant position be discontinued, and impose a financial penalty.

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

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

Certain segments of the Group's business, in particular operation of securitisation funds and investment fund companies managing such funds, management of the funds' securitised debt, as well as operations involving the provision of detective services, are subject to special regulations. To be able to conduct such activities, the Group is required to obtain authorisations or consents from public administration authorities (the PFSA in Poland) or entry in the register of regulated activities, and is supervised by these authorities.

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

Considering the legal environment, one should bear in mind the EU legislation, which governs various spheres of economic activity, in particular competition, financial

services markets, consumer rights, fair business practices and terms of contracts with consumers, supervision of tax legislation applicable in member states, personal data protection, etc. The EU laws have a significant influence on member states' legislation, and thus on the Group's operations.

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

Romania

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

Slovakia

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

Germany

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

Italy

In Italy, debt collection is also subject to licensing. Ques-tura is the authority competent to grant and revoke such licences. Both KRUK Group companies operating in Italy hold the required licences. The institutions directly supervising debt collection and purchase activities include the Bank of Italy (Itacapital SPV is required to send periodic reports on its debt portfolio purchases to the Bank of Italy; the Bank may also demand formal explanations or carry out inspections). Also Autorita' Garante della Concorrenza e del Mercato (AGCM) is authorised to impose sanctions in the event of a breach of the Codice di Condotta law, laying down best practices to be followed in debt collection. The following institutions should also be mentioned: Garante della Privacy, authorised to impose sanctions in the event of a breach of personal data protection rules, and Guardia di Finanza, authorised to impose sanctions in the event of a breach of tax obligations.

Spain

The Spanish legislation does not provide for the obligation to obtain a permit or licence to conduct debt management activities. No entity operating in Spain is obliged to meet any special requirements with respect to its assets, investments, accounting or regulatory reporting. However, it is possible that such entities may soon become required to implement regulations with respect to obligatory reporting, data protection, and consumer rights. Furthermore, all entities engaged in finance or lending activities are obliged to comply with specific regulations governing such activities. There are no regulations applicable specifically to debt collection outsourcing. Certain types of activities, such as those of a field consultant, are subject to strict regulation and require a special permit from the Ministry of Internal Affairs.

4.2.1 Securitisation funds

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

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

By virtue of its decision of May 8th 2012, the Polish Financial Supervision Authority authorised KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to conduct business activities consisting in the creation and management of investment funds. On December 7th 2012, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. took over the management of the KRUK Group's securitisation funds. On May 19th 2016, KRUK TFI S.A. took over the management of P.R.E.S.C.O. Investment I NS FIZ from Trigon TFI S.A.

In accordance with the provisions of the Act on Investment Funds and Management of Alternative Investment Funds of May 27th 2004, as amended by the Act Amending the Act on Investment Funds and Certain Other Acts of March 31st 2016, the KRUK Group securitisation funds

received the status of alternative investment funds, and KRUK TFI S.A. became the manager of alternative investment funds. This involves closer supervision by the PFSA and additional duties for the management company.

On April 15th 2016, KRUK S.A. entered into an agreement to manage the securitised debt of P.R.E.S.C.O. Investment I NS FIZ. The agreement provides, among other things, for debt purchase and sale on behalf of the fund, preparation of projects and analyses concerning the fund's investments, preparation of analyses concerning efficient day-to-day management of the fund's portfolio, debt collection and administration of the fund's securitised claims. The securitised debt of Prokura NS FIZ has been managed by KRUK S.A. since April 1st 2015. The performance of such agreements is subject to the PFSA's oversight.

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

4.2.2 Outsourcing of debt collection by banks

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

4.2.3 Exchange of business information

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

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

At the moment, legislative work is ongoing to amend statutory provisions governing the company's operations based on the government-proposed draft Act on

Amendment of Certain Acts to Facilitate the Collection of Debts (paper No. 1185 of the Sejm of the 8th term of office). The proposed changes would enable the company to offer new types of services, including intermediation in accessing information from public registers and analyses of creditworthiness of entrepreneurs/business entities. At the same time, the changes would entail imposition of certain additional duties on the company, for instance related to considering debtors' objections against entry of business information into the register. The amendments are expected to take effect on June 1st 2018.

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

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

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

The Group companies operating outside of Poland are subject to supervision by competent authorities in the countries where they conduct their business, notably:

- In Romania: The financial sector in Romania is governed by numerous regulations, covering the exercise of supervision over and control of operations conducted by banking and non-banking financial institutions. Non-banking financial institutions (IFNs) are subject to supervision by the National Bank of Romania (NBR). The NSC mentioned above in Section 4.2 is the capital market regulator. NAPC is the supervision authority in the area of protection of consumer rights, maintaining a register in which any entity looking to launch debt collection operations must be entered.
- In Germany: Kammergericht Berlin is the authority overseeing the credit management sector and activities of credit management companies.
- In the Czech Republic: The Czech Commercial Inspection Authority is competent for protection of consumers, including supervision of the debt recovery business; other relevant authorities include the body responsible for supervising compliance with personal data protection regulations and the "financial arbitrator" responsible for settling disputes between consumers and financial institutions on an out-of-court basis.
- In Slovakia: The National Bank of Slovakia is responsible for supervising the market of consumer lending and acquisition of consumer debt portfolios;

the Commercial Inspection Authority is responsible for protection of consumers, including with respect to collection of debts; there is also an authority with a remit to supervise protection of personal data.

- In Italy: The Bank of Italy is the competent market regulator with respect to purchases of debt portfolios; ACGM is responsible for overseeing compliance with the principles set forth in Codice di Condotta; Questura is the licensing authority for entities looking to conduct debt collection activities; and Garante della Privacy is responsible for personal data protection.
- In Spain, there is the Spanish Personal Data Protection Agency.

4.2.5 Personal data protection

Due to the large scale of personal data processing in the Group's day-to-day operations, personal data protection regulations have special importance for the Group's activities. Personal data must be processed in compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against disclosure to unauthorised individuals. In addition, individuals whose data is processed should be provided with information on the entity processing the data, as well as on the purpose and basis of processing the data; in addition, such individuals must have the right to access and amend their data.

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

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

Below are listed significant changes in the laws and regulations applicable to the Group companies which took effect in 2016. Selected examples:

- On January 1st 2016, the Restructuring Law of May 15th 2015 came into force. The new act has been designed to help businesses avoid bankruptcy more effectively than the formerly applicable provisions of the Bankruptcy and Recovery Law.
- On January 1st 2016, the Act Amending the Act on Bailiffs and Debt Enforcement took effect, restricting the creditor's right to choose a court enforcement officer.
- On January 1st 2016, the Act on Complaint Handling by Financial Market Participants and on the

Finance Ombudsman of August 5th 2015 came into force.

- On January 1st 2016, the Act Amending the Act on Time Limits for Payment in Commercial Transactions, the Civil Code, and Certain Other Acts of October 9th 2015 came into force, introducing a uniform interest accrual mechanism for transactions under civil law and changes concerning payments in commercial transactions, as well as a distinction between statutory interest on principal loaned and statutory default interest, also with respect to the amount of such interest.
- On February 1st 2016, the Act on Taxation of the Assets of Certain Financial Institutions of January 15th 2016 came into force. The tax applies to Polish banks, branches of foreign banks, branches of credit institutions, credit unions (SKOK) and other, smaller operators.
- On March 11th 2016, the Act Amending the Capital Market Supervision Act and Certain Other Acts of August 5th 2015 took effect. The new act amended, inter alia, the Consumer Credit Act of May 12th 2011, by introducing regulations that define the cap on fees and interest that may be charged from a defaulting borrower and the cap on non-interest costs of a loan.
- On April 17th 2016, the Act Amending the Act on Competition and Consumer Protection and Certain Other Acts of August 5th 2015 came into force. The newly introduced regulations prohibited the use of abusive contract clauses in standard agreements entered into with consumers, and extended the UOKiK President's decision-making powers and authority in relation to the public system of informing consumers of their rights. The list of practices infringing upon the collective interests of consumers was also extended.
- On June 4th 2016, the Act Amending the Act on Investment Funds and Certain Other Acts of March 31st 2016 took effect. The new act amended, among other things, the Act on Investment Funds of May 27th 2004, by defining the legal form in which alternative investment firms may conduct their operations, setting forth the terms and organisational requirements pertaining to the conduct of operations by managers of alternative investment firms, and clarifying the tasks and duties of depositaries. Certain amendments were also introduced to the Act on Capital Market Supervision of July 29th 2005.
- On September 8th 2016, the Act Amending the Civil Code, the Code of Civil Procedure and Certain Other Acts of July 10th 2015 came into force. The principal objective of this amending act was to improve the efficiency of courts, and in consequence to shorten the waiting time for the processing of court cases. Based on the introduced amendments, pleadings may now be lodged and process served

via ICT systems. Some of the amendments relate also to enforcement, where a new, more convenient auction procedure to sell seized movables via online platforms has been introduced. The new regulations extended the previous list of evidence types that may be used in court proceedings and introduced the definition of a document.

The most important changes in Romanian law which took effect in 2016:

- On May 13th 2016, the Datum in solutum 77/2016 act came into force, allowing debtors to offer real property instead of loan repayment to their creditors.
- The EGO/52/2016 act has defined the operational framework for entities engaged in debt recovery; any such entity must now be registered and file reports with the NAPC. Rules have been established for notifying indebted persons of assignment of their debts, and the framework for conducting debt collection activities has been defined.
- In October 2016, the Romanian parliament passed an act concerning conversion of CHF-denominated loans (that piece of legislation did not enter into force as it was challenged on the grounds of inconsistency with the constitution).

In Germany, there were no major legislative changes in 2016; the only development worth mentioning was the transposition of Directive 2013/11/EU of the European Parliament and of the Council of May 21st 2013 on alternative dispute resolution for consumer disputes into German national law.

In the Czech Republic, a new regulation concerning consumer loans took effect on December 1st 2016. It introduced a very broad definition of a consumer loan, new regulatory framework applicable to non-bank lenders (which are now required to obtain a licence from the CNB), as well as new obligations related to the conducted operations and reporting.

In Slovakia, a new Code of Civil Procedure (No. 160/2015 Coll.) took effect on July 1st 2016. It enhances the protection of consumers, introduces the principle of concentration of evidence, and permits the issue of default judgments, however not in the event that the party absent at a court hearing is a consumer.

In Italy, the Codice di Condotta, already mentioned in this report, came into force. The new code recapitulates and consolidates into law the best practice to be observed in any activities undertaken towards indebted persons, including protection of their privacy, under pain of financial penalties or even loss of a licence. Another regulation worthy of note is Decree 59/2016, which in the opinion of Italian lawyers will expedite the debt recovery process by establishing a register of indebted

entities; also the duration of enforcement against real property is expected to be considerably reduced. The decree has also introduced changes with respect to bankruptcy proceedings.

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

4.3 Geographical markets of the Group's operations

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

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

On all those markets, in 2016 the Group purchased 99 debt portfolios with a total nominal value of PLN 16.4bn, incurring expenditure of PLN 1,283m.

For more information on the Group's geographical markets, see Section 4.1 Structure and description of the debt management market.

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

The Group's core business comprises two operating segments:

- debt portfolios purchased – management of debt portfolios purchased for the Group's own account;

- credit management services – fee-based management of debts for and on behalf of clients.

The Group's activities are focused on the banking sector. Accordingly, the amount of debt collected for the clients and purchased for the Group's own account depends chiefly on the conditions prevailing on financial markets, in particular the level of corporate debt and the related value of non-performing loans. Moreover, a market parameter that has a material bearing on the Group's revenue is clients' interest in outsourcing debt collection, i.e. whether they decide to use in-house debt collection or transfer debt collection to specialised external firms, either under outsourcing arrangements or by selling the debt.

The KRUK Group operates on the Polish and foreign markets. In 2007, the Group launched its operations on the Romanian market, and in 2011 – on the Czech and Slovak markets. The Group's German company was established in 2014. In 2015, two more companies were founded – in Italy and Spain. In 2016, the Group acquired two local operators in Italy and in Spain. A detailed description of key external factors affecting the Group's operations is presented in Section 4.1 Structure and description of the debt management market.

4.5 Strategy overview and business prospects

4.5.1 Amicable settlement strategy for debt collection

Since mid-2008, the Group has consistently pursued a strategy focused on amicable debt settlement with debtors. Under the strategy, debtors are treated as consumers who are unable to pay their debts for reasons beyond their control, acknowledge that obligations once

Table 28. KRUK Group's investments in 2016 on each geographical market of its operations

	Nominal value (PLNm)	Expenditure (PLNm)
Poland	4,519.3	427.0
Romania	3,659.8	379.0
Italy	6,242.1	321.7
Other*	2,018.3	155.7
Total	16,439.5	1,283.4

* The Czech Republic, Slovakia, Germany, Spain

Source: the Company

incurred must be settled, and are willing to do so. As a result, the Group gears its debt collection efforts to achieving an optimum solution given the debtor's current financial capabilities (e.g. through instalment-based repayments). This strategy has maximised the efficiency of collection efforts and has led to regular payment streams from debtors. The implementation of the strategy was supported by a media campaign targeted at debtors, which contributed to the Group's positive image and made it the most recognisable brand on the Polish and Romanian debt management markets.

This strategy has maximised the efficiency of collection efforts and has led to regular payment streams from debtors.

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

4.5.2 Comprehensive and innovative product and service offering

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

purchases. The product and service offering is described in detail in Section entitled We help people pay their debts.

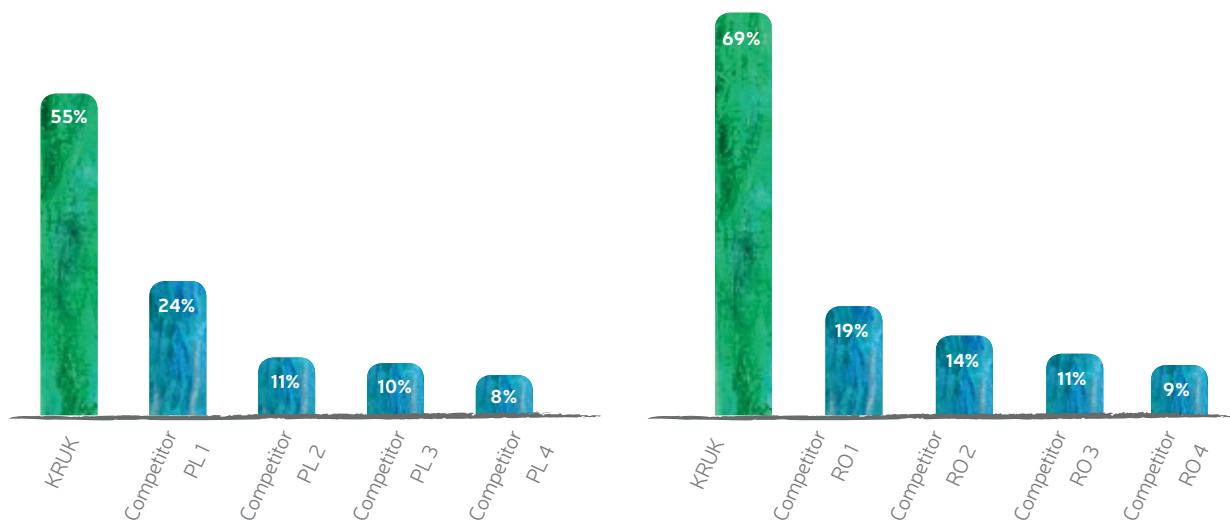
4.5.3 The Group's marketing and PR activities

2016 saw rapid expansion of the KRUK Group, both on the domestic and foreign markets. It was an eventful and active period in terms of marketing, education, and communication. Due to the diversity and range of the KRUK Group's activity, in this document it is divided into a number of key areas: support for development of the Group's business on new markets, employer branding, financial education of the public, participation in industry conferences, rebranding of ERIF BIG S.A., support of charity initiatives, etc.

Support for the KRUK Group's development on new markets


All of the Group's marketing and PR objectives rely on clear and comprehensive communication. Therefore, as part of preparations for entry into the Italian and Spanish markets, the Group carried out in-depth research among debtors. Ethnographic interviews conducted in a typical environment, that is in the homes of KRUK's potential clients, proved that the KRUK Group's amicable settlement strategy would be well received on those markets. The comprehensive research has also informed the Group's efforts to optimise communications and processes, while tailoring them as closely as possible to local communities. This was a milestone, which added momentum to the Group's development in Italy and Spain. Very soon, in the last quarter of 2016, we launched a widespread media campaign through

Chart 6. Overall awareness* of the KRUK brand versus competitors in Poland and Romania in 2016



* Total awareness (name and logo)

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



Therefore, as part of preparations for entry into the Italian and Spanish markets, the Group carried out in-depth research among debtors.

press conferences and meetings with journalists in both countries. These activities started our image-building process on the new markets. We reached members of both Italian and Spanish press with a message about KRUK and its amicable settlement strategy. It was also important to inform the media about the Group's growth and acquisition of new companies: Credit Base International of Italy and Espand Soluciones de Gestión of Spain.

Additionally, the major PR projects carried out in Poland in 2016 included a PR drive related to the acquisition by KRUK of the entire share capital of P.R.E.S.C.O. Investments S.a r.l., and launch of a new operating branch in Piła. As part of these activities, an information campaign was run for the town's residents. "Urgent Matters", a dedicated newsletter, hit over 27 thousand mailboxes, allowing every resident to get acquainted with the new employer and member of the Piła community. Moreover, following the rule that great brands are built from the inside, the KRUK Group held a number of meetings and an open-door day for new employees of the Piła branch. Their purpose was to present KRUK's values and build its image on the local market.

Employer Branding

In 2016, the Group took a number of measures designed primarily to enhance KRUK's brand image among its potential and existing employees, as discussed at length in a separate section of this report. However, the marketing and PR activities in this respect should also be noted.

In order to strengthen its perception as a responsible employer, the KRUK Group took part in the Responsible Business Week, an initiative of CSRIInfo, which was an opportunity to share certain practices and solutions implemented by KRUK. In this way, the Group is able to build and foster relations with various groups of stakeholders, taking into account social interests, as well as the needs of its existing and future employees.

Furthermore, in the second half of the year, a campaign was launched to support the Group's image as an employer. The objective behind the initiative was to encourage residents of Wałbrzych and neighbouring

areas to learn more about KRUK and the realities of working as a telephone consultant, as well as to invite them to join the active recruitment processes. Billboards featuring long-time consultants employed at the Szczawno-Zdrój branch of KRUK were displayed in many highly frequented locations. Having attracted considerable interest, the campaign was culminated with an open-door day for people who wanted to learn more about KRUK and the ins and outs of a consultant's work.

Employer branding initiatives were also undertaken in Piła, with a view to introducing the KRUK Group as a new employer on the local market. Therefore, with the consent and in association with the Piła Municipal Office, a special exhibition was prepared, showcasing the KRUK Group's business and its CSR commitment.

Additionally, in 2016, we continued to cooperate with the Hradec Kralove University in the Czech Republic. Together with the university, we developed and implemented a scheme for students and graduates, offering them internships at the Czech subsidiary. Many activities targeted at students were also taken at the Polish, Romanian, and German companies. Our experts and guests met with young people to share their experience and knowledge of finance management.

Financial education of Group clients and the public

For years, education has featured prominently in the KRUK Group's communication and marketing strategy. We have been consistent in supporting our clients in regaining creditworthiness and showing them ways to deal with debt. Our communications and initiatives are also addressed to the general public in order to promote basic knowledge of finance and stress the importance of home budget management.



Educational activities were conducted throughout 2016. However, as in previous years, one of the Group's key initiatives in this area was the Day without Debts. Last year saw another edition of the event initiated by KRUK, held for the eighth time in Poland, for the sixth time in Romania, for the fifth time in the Czech Republic, and for the fourth time in Slovakia. It was accompanied by a number of educational initiatives focusing on communication and marketing.

For the purpose of communication with the media, the Group commissioned a survey called "The Financial Behaviour of Europeans", which was carried out on the seven markets where KRUK operates. It was the first such survey among respondents from Poland, the Czech Republic, Slovakia, Romania, Germany, Italy, and Spain. The findings showed the respondents' approach

to financial education, their knowledge of finance, and attitudes towards debt management companies. This highly informative and comprehensive material drew huge interest from both experts and the press, as evidenced by how widely it was followed and covered by the media. For instance in Poland, the Day without Debts and the survey garnered attention from key nationwide and local media, which featured expert opinions by KRUK representatives. The main findings of the survey were presented during press conferences organised on the Day without Debts, in Poland, the Czech Republic, Slovakia, and Romania. Additionally, during conferences held in Warsaw and Piła, conclusions were presented from the “Small step, giant chance” workshops, initiated by KRUK. The workshops held in six Polish cities were dedicated to individuals in financial difficulties. They were conducted by Roman Pomianowski, a psychologist with the Debtors Support Association, who has many years of experience working with debtors. In line with KRUK’s mission, the workshops were designed to help debtors get out of the debt trap.

On the KRUK Group’s initiative, journalists were invited to the Maria Skłodowska-Curie General Secondary School in Piła. The venue was not chosen at random, being among 22 schools which in the 2016/2017 school year take part in the 9th edition of the “Live financially! Financial management in private life” project, organised by the Society for the Promotion of Financial Education. It should be noted that the KRUK Group is one of key partners of this year’s edition of the initiative, which will cover around 700 secondary school students.

As in previous years, the educational activities were supported by marketing campaigns run in the press and the Internet. In sponsored articles published in the most popular press titles, KRUK consultants advised readers what to do when financial difficulties arise, and explained the importance of keeping in contact with their creditor. Some newspapers of nationwide circulation featured brief advice articles in which KRUK experts answered readers’ questions concerning financial matters. Moreover, our clients received brief brochures containing advice on debt settlement methods. Additionally, the theme of indebtedness and solution to debt problems was again featured in “Ojciec Mateusz”, one of the most popular TV series shown on Polish public TV as part of the KRUK Group’s idea placement campaign.

The Day without Debts was traditionally joined by ERIF BIG S.A., which had prepared an online campaign for consumers called “Monitor yourself – take care to maintain your financial credibility”. The purpose of the campaign was to educate consumers and promote the self-monitoring service.

During the Day without Debts, people in the Czech Republic and Slovakia could seek expert advice in

designated information points, set up in 31 towns in the Czech Republic and 9 in Slovakia, which were visited by almost a thousand persons. What is equally important, the Day without Debts on the Czech and Slovak market was also joined by other debt management companies (Logically, EOS KSI). The communication initiatives were supported by an online campaign.

Like in Poland, issues discussed during the Day without Debts in the Czech Republic and Slovakia drew attention from key media, including the region’s five leading TV stations.

The 2016 Day without Debts was also an important event in Romania. Similarly to Poland, the Czech Republic, and Slovakia, also in Romania a press conference was held to summarise the findings of the international survey commissioned by the KRUK Group. In addition to communication initiatives, there was also an awareness-raising television campaign for the Romanian public. In 2016, the brand ambassador in Romania was again Iuliana Tudor – a Romanian TV star, who appeared in short video guides on home budget management. The Romanian celebrity also promoted a new mobile application developed by the KRUK Group to help manage spending and income. In addition to the Romanian language version, the application will also be released in Polish, German, Spanish, Italian, Czech, Slovak, and English.

Its educational initiatives brought KRUK România victory in the prestigious PR Award Romania competition in the ‘Corporate communication of financial products and services’ category for the ‘Sunt mai mult decât datoria mea’ (‘I am more than my debt’) PR campaign.

Also in the Czech Republic and Slovakia, the KRUK Group was recognised for its unique, businesslike approach to debtors. For instance, Asociace Inkasních Agentur (abbreviated name: AIA), an association of debt management companies, recognised KRUK for the Day without Debts, which was also joined by other Czech debt management companies.

It should also be noted that in 2016 the Group developed an educational board game which, besides being fun to play, teaches children and adults how to manage their finances. The game has become an attractive educational tool on every market where the KRUK Group is present.

Worth mentioning is also the role of ERIF Biuro Informacji Gospodarczej S.A.’s educational initiatives, which include online campaigns dedicated to consumers on infoKonsument.pl, supported by the Pozytywny Poradnik Konsumenta (Positive Consumer Guide) fanpage available on Facebook. The initiatives were designed to promote and show the benefits associated with the

possibility of checking a business, such as a travel agency, or to run a self-check, through ERIF BIG S.A. It is important to note that ERIF actively promotes knowledge about credit reference agencies in Poland and takes part in shaping Poland's market of business information exchange. Educating the public about the importance of building a positive credit history is high on ERIF's agenda. As an initiator of the Good Credit Record Day, also in 2016 ERIF carried out campaigns to raise the public's awareness of the importance of having a good track record in credit reference agencies.

Rebranding of ERIF Biuro Informacji Gospodarczej S.A.



Positive credit information changes the perception and face of the market of business information exchange. This was one of the reasons behind a decision to rebrand the company which, until September 2016, was registered as Rejestr Dłużników ERIF BIG S.A. The first two words, meaning "Register of Debtors" were removed from the company's name, which was shortened to ERIF Biuro Informacji Gospodarczej S.A. The company has also a new logo. It ought to be noted that more than a half of ERIF's database comprises positive information – evidence of timely repayment of debt such as loan instalments, bills, invoices, etc.

Conferences

The KRUK Group remains committed to the entire sector's education and development. Every year, the Group organises its own events and actively participates in industry conferences in Poland and abroad. This allows it to share experience, set new trends, identify development directions for the debt management market, and – in the case of ERIF BIG S.A. – for the market of business information exchange.

The most important conferences attended by the KRUK Group in 2016:

- in Poland: banking sector conference, workshops for insurance companies, forum dedicated to enforcement of claims, Loan Magazine Awards 2015 gala event, Lending Sector Congress, 590 Congress, Consumer Finance Congress, ERIF's forum devoted to business information exchange;
- in the Czech Republic: conference on experience exchange between companies operating on the consumer finance market, Fórum inkasního trhu;
- in Romania: Creditors' Forum;
- in Germany: 8. Forderungs- und Risikomanagement Tage, FachTagung Konsumfinanzierung;
- in Spain: 8º Congreso Nacional de Crédito.

4.6 Development directions and prospects of the Group

4.6.1 Strategy for 2015–2019

In 2016, the KRUK Group updated its strategy for 2015–2019. Section 4.6.1 Strategy for 2015–2019 and Section 4.6.2 Strategy implementation progress present the assumptions of the revised strategy and progress in achieving the strategic objectives.

Mission

Our client base includes individuals and businesses facing the problem of excessive debt.

We build positive relations and help our clients regain creditworthiness.

We safeguard compliance with social norms and legal rules requiring that liabilities incurred must be settled.

Vision

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

Key objective for 2015–2019

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

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

Current business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Spain	Italy
Debt portfolio purchases	Consumer	●	●	●	●	◐	◐	◐	○	○
	Mortgage	●	●	○	○	○	○	○		
	Corporate	●	●	○	○	○	◐	○		
Debt collection outsourcing		●	●	●	●	◐	●	◐		
Consumer loans		●	◐							
Credit information		●	○	○	○	○	○	○		

● – Fully operational ◐ – Partly operational / Launch of the process
 ○ – Planned launch of operations / Planned analysis of potential

Source: the Company

Product range development and growth in geographical regions

In 2015–2019, the Group plans to expand its existing business lines and develop new ones in countries where it already operates, and on new foreign markets. With respect to the product range, the Group plans to continue purchasing consumer, mortgage, and corporate debt portfolios, providing debt management services, and developing the consumer loan business and credit information services. The Group plans to expand into large consumer markets of debt management in Europe, and – by the end of 2019 – plans to enter two new markets. The Group's growth potential across products and geographical regions is presented in Figure 3.

Improvement of management efficiency

Steps taken to enhance the Group's efficiency cover the entire organisation, with particular focus on economies of scale and more effective management of the portfolio of purchased debt. Based on nominal value at the time of acquisition, the portfolio of purchased debt was PLN 43bn as at the end of 2016, and the number of cases exceeded 5 million. Since its inception, the Group has purchased a total of 599 debt portfolios. KRUK gains experience also by providing credit management services, as part of which a million cases on average are outsourced for collection by KRUK every year.

The Group plans to maximise its management efficiency through:

- increasing the reach of debtors from the portfolio acquired so far;
- continuous improvement of process efficiency and methods of data analysis;
- improvement of systems ensuring security of operations;
- expanding expertise in tender procedures and maintaining lasting relations with business partners;
- creating an excellent and effective working environment for positive and passionate people.

New services in the financial sector in Poland

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

4.6.2 Strategy implementation progress

Table 29 presented the implementation progress on the main objective pursued before the strategy update.

Table 30 presented the implementation progress on strategic objectives in 2016.

4.7 The Group's investment programme

4.7.1 Capital expenditure

In 2016, the main items of capital expenditure made by the Group included PLN 9.0m spent on new vehicles (including under finance lease agreements) and PLN 5.0m spent on plant and equipment. The Group also made material investments of PLN 8.8m in licences and software, including PLN 5.1m invested in proprietary software.

4.7.2 Investments within the Group

In 2016, KRUK increased and reduced the share capitals of its subsidiaries:

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

In 2016, InvestCapital Malta Ltd, a subsidiary, increased the share capital of SeCapital S.à r.l. by a total of PLN 93.6m.

Table 29. Implementation progress on the main objective pursued before the strategy update

Previous main objective	Implementation progress
Achieving the position of one of Europe's three leading debt management companies in terms of net profit.	The available data shows that the Group ranks third among public debt management companies in terms of net profit.

Table 30. Implementation progress on strategic objectives in 2016

Strategic objectives	Key initiatives implemented in 2016
Product range development and growth in geographical regions	<ul style="list-style-type: none"> Poland: closing the acquisition of a consumer debt portfolio from P.R.E.S.C.O. on the secondary market; Romania: closing the acquisition (together with the World Bank) of a consumer debt portfolio from the Eurobank Group; mortgage development; launch of the lending business on the internal market; Germany: investments in further consumer debt portfolios, launch of credit management services for business partners; Italy: investments in further consumer debt portfolios, acquisition of a local debt management company; Spain: investments in first consumer and SME debt portfolios, acquisition of a local debt management company.
Improvement of management efficiency	<ul style="list-style-type: none"> improved valuations, including on new markets; launch of a third call centre in Poland, in Piła; Lean Six Sigma optimisation projects; projects related to the employee suggestion scheme; improvement of the systematic approach to risk.

Source: the Company

In 2016, InvestCapital Malta Ltd, a subsidiary, reduced the share capital of SeCapital S.à r.l. by a total of PLN 90.4m.

In 2016, SeCapital S.à r.l., a subsidiary, reduced the share capital of Presco Investment S.a r.l. by a total of PLN 10.0m.

Establishment of new companies

No new companies were established by KRUK S.A. in 2016.

Acquisition of shares in foreign companies

Acquisition of shares in Presco Investments S.a r.l

On April 15th 2016, the Management Board of KRUK S.A. signed a statement on fulfilment of the condition for the transaction closing and transfer of the ownership of shares, whereby the ownership title to 390,050 shares in Presco Investments S.a r.l., free and clear of any encumbrances, restrictions or third-party rights, with a total par value of PLN 39,005,000, was transferred to Seapital S.a r.l., a subsidiary of KRUK S.A., along with the right to the debt portfolios of P.R.E.S.C.O. Investment I NS FIZ purchased on the Polish market . The purchase price of the shares referred to above on the transaction closing date was PLN 193.7m ("Price") and was reduced by PLN 3.58m under a dividend payable to the Seller from Presco Investments S.a r.l.'s profit for 2015. For more information, see Current Report No. 31/2016.

Acquisition of shares in Credit Base International S.r.l.

On November 7th 2016, KRUK S.A. concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy ("CBI") for the acquisition of 100% of the shares in CBI, free and clear of any encumbrances, restrictions or third-party rights. CBI's business involves the management of purchased debt portfolios and credit management services in Italy. Under the Agreement, KRUK S.A. acquired also the entire share capital of Elleffe Capital S.r.l. of La Spezia, Italy (CBI's subsidiary), whose business activity includes investment in debt or debt-backed assets.

Acquisition of shares in Espand Soluciones de Gestion S.L.

On December 20th 2016, KRUK S.A. concluded an agreement with the shareholders of Espand Soluciones de Gestion S.L. of Madrid, Spain, for the acquisition of 100% of the shares in Espand, free and clear of any encumbrances, restrictions or third-party rights. Espand's business involves the management of purchased debt portfolios and credit management services in Spain.

Table 31. Increase and reduction of the share capitals of the Group's subsidiaries

Company	Action	Amount
Secapital S.a r.l.	Share capital reduction	PLN 173.6m
InvestCapital Malta Ltd.	Share capital increase	PN 729.9m
InvestCapital Malta Ltd.	Share capital reduction	PLN 42.2m
KRUK TFI S.A.	Share capital increase	PLN 1.1m
KRUK România SRL	Cancelling liabilities under loans (including interest)	PLN 2.2m*
KRUK Deutschland GmbH	Additional contributions to statutory reserve funds	PLN 38m**
KRUK Espana S.L.	Additional contributions to statutory reserve funds	PLN 4.8m**
KRUK Italia S.r.l	Additional contributions to statutory reserve funds	PLN 4.4m**
ItaCapital S.r.l	Additional contributions to statutory reserve funds	PLN 0.2m**

* Translated at the mid-rate quoted by the NBP for the debt cancellation agreement date, i.e. December 31st 2016

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

Source: the Company

4.7.3 Investment programme financing sources

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

4.7.4 Assessment of the feasibility of investment plans

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

4.8 Risk factors – internal factors

4.8.1 Material risk factors

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

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

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

The development of existing operations, further development of the product range and expansion into new markets require expenditure, in certain cases in significant amounts. If the development of existing

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

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

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

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

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

4.8.1.3 Operational risk related to the Group's business

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

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

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

4.8.1.5 Risk of material decline in recoveries from purchased debt portfolios

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

4.8.1.6 Credit risk

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

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

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

4.8.1.7 Debt risk

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

4.8.1.8 Risk of losing experienced management staff

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

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

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

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

4.8.1.9 Risk of IT systems' failure

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

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

4.8.1.10 Risk connected with related-party transactions

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

4.8.1.11 Risk of negative PR in relation to the Group

The nature of the Group's business exposes it to the risk of publication of untrue information concerning dealings with the KRUK Group or information that is detrimental to the Group's image. Negative publicity may undermine

the Group's credibility in the eyes of its current or potential trading partners, and consequently may have a negative effect on its financial performance.

The Company's operations involve managing debt owed by natural persons. Some of those persons are in difficult financial and personal circumstances, suffer from ill health or experience problems in their families or work. Among the debtors whose debts are managed by the KRUK Group there are people suffering from depression or undergoing psychiatric treatment. Some of them also express an intention to commit suicide.

4.8.2 Risk management system

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

- identify and analyse the risks to which the Group is exposed;
- define appropriate limits and procedures;
- control and monitor the risk level and suitability of the risk management tools.

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

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

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

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

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

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

the Group to limit the risk of incorrect estimate of the fair value of the debt portfolios it has purchased.

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

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

4.8.2.3 Managing credit risk

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

- assessment of a client's creditworthiness prior to proposing payment dates and other terms of cooperation;
- regular monitoring of timely payment of debt;
- maintaining a diversified client base.

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

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

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

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

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

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

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

4.8.26 Managing liquidity risk

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

Liquidity risk management tools used at the Group include:

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

4.8.27 Managing the risk of loss of experienced management staff

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

4.8.28 Managing the risk of IT systems' failure

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

4.8.29 Managing the risk connected with related party transactions

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

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

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

- information and media campaigns targeted at indebted individuals and companies;
- projects connected with information and education campaigns in Poland and abroad, including publication of Internet, television or radio spots;
- educational publications that promote its amicable settlement strategy in consumer and regional magazines in Poland, Romania and the Czech Republic;
- press releases, consumer advice articles and individual statements for the press;
- publications on the KRUK Group for the television, radio, the press and the Internet;
- training courses for debtors, covering the discussion of debt settlement methods, as well as methods of managing the personal budget.

4.9 Agreements executed by companies of the KRUK Group

4.9.1 Material agreements

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2016 which may be considered material to the Group's operations.

4.9.1.1 Agreements executed with non-Group companies

Debt purchase agreement with Santander Consumer Bank S.A.

On February 4th 2016, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NS FIZ" or "Buyer") executed a debt purchase agreement ("Agreement") with Santander Consumer Bank S.A. ("Bank"), a Santander Group company. As a result, the total estimated value of all agreements executed by KRUK Group companies and Santander Group companies between May 16th 2015 and February 4th 2016 reached PLN 77m, thus exceeding 10% of the KRUK

Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. The highest-value agreement executed in the period was the agreement between Prokura NS FIZ and Santander Consumer Bank S.A. referred to above. Under the agreement, PROKURA NS FIZ purchased from the Bank a portfolio of unsecured retail debts with an aggregate nominal value of PLN 327m for a price of PLN 51.9m. For more information, see Current Report No. 6/2016 of February 4th 2016.

Closing the acquisition of shares in Presco Investments S.a r.l.

On April 15th 2016, Secapital S.a r.l., KRUK S.A.'s subsidiary ("Buyer") signed a statement to the effect that the condition for the transaction closing was fulfilled and the ownership of the shares was transferred, whereby the ownership title to 390,050 shares in Presco Investments S.a r.l., free and clear of any encumbrances, restrictions and third-party rights, with a total par value of PLN 39,005,000, was transferred to the Buyer; along with the right to the debt portfolios of P.R.E.S.C.O. Investment I NS FIZ purchased on the Polish market. The purchase price of the shares referred to above on the transaction closing date was PLN 216.8m ("Price") and was reduced by PLN 3.58m under a dividend payable to the Seller from Presco Investments S.a r.l.'s profit for 2015. For more information, see Current Report No. 31/2016 of April 15th 2016.

Successful participation in the auction to buy a debt portfolio on the Spanish market

On April 18th 2016, the Management Board of KRUK S.A. was notified that its subsidiary, InvestCapital Malta Ltd. of Malta, had won an auction to purchase a debt portfolio from BIGBANK AS Consumer Finance SE of Madrid. The portfolio's nominal value was approximately EUR 3m (or PLN 12.9m, at the mid-rate quoted by the National Bank of Poland for April 18th 2016).

Debt purchase agreement with Eurobank Group entities

On May 20th 2016, the Company's subsidiary ProsperoCapital S.a r.l. of Luxembourg ("Buyer") signed a significant firm agreement ("Agreement") with Eurobank Group Romanian entities – Bancpost S.A. and ERB Retail Services IFN S.A of Bucharest, and Eurobank Group Dutch subsidiary – ERB New Europe Funding II B.V. of Amsterdam ("Sellers"). The subject of the Agreement was the acquisition of three portfolios of receivables ("Receivables") with a nominal value of EUR 597m (PLN 2.6bn according to NBP exchange rate of May 20th 2016) for the price specified in the Agreement, subject to agreed adjustments. Project was realised by the consortium including International Finance Corporation of Washington D.C., USA, owned by World Bank and InvestCapital Malta Ltd. By Malta, KRUK subsidiary. KRUK Group's part in the

investment was ca. EUR 46m (or PLN 203m as at 20th May 2016). For more information, see Current Report No. 45/2016 of May 20th 2016.

Surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A.

On June 20th 2016, in connection with a non-revolving working capital facility agreement executed by the Company's subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty of Wrocław ("Credit Facility Agreement"), KRUK S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw ("Bank") ("Surety Agreement"). In accordance with the Surety Agreement, KRUK S.A. guaranteed liabilities towards the Bank under the Credit Facility Agreement, whether existing at the time of the surety execution or arising in the future, including in particular interest and costs of court and enforcement proceedings incurred by the Bank, and thus became a joint and several debtor in respect of those liabilities. The surety was issued for up to PLN 52,971,106.80. It will expire not later than on December 19th 2022. For more information, see Current Report No. 58/2016 of June 20th 2016.

Debt purchase agreements with Powszechna Kasa Oszczędności Bank Polski S.A.

On June 22nd 2016 the Company's subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NS FIZ", "Borrower") signed two debt purchase agreements with Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw ("Bank"), as a result of which the aggregate estimated value of agreements executed between KRUK Group entities and PKO BP Group entities between December 16th 2015 and June 22nd 2016 reached PLN 84.7m, exceeding 10% of the KRUK Group's revenue for the last four financial quarters, which satisfies the materiality criterion. In this period, the highest value agreement was the non-revolving working capital facility agreement signed between the Bank, PROKURA NS FIZ and the Company ("Credit Facility Agreement"), conclusion of which was disclosed by the Company in Current Report No. 58/2016 of June 20th 2016. Under the Credit Facility Agreement, the Bank advanced to PROKURA NS FIZ a credit facility of up to PLN 35.3m ("Credit Facility") from June 20th 2016 to December 19th 2020. For more information, see Current Report No. 59/2016 of June 22nd 2016.

Debt purchase agreement with Banca Monte dei Paschi di Siena S.p.A.

On June 23rd 2016, ItaCapital s.r.l. of Milan (ItaCapital, the Buyer), a subsidiary of the Issuer, having closed negotiations with Banca Monte dei Paschi di Siena S.p.A.

of Siena and having obtained the necessary corporate approval, signed a debt assignment agreement with the Bank.

Acting in accordance with Art. 57.1 of the Act on Public Offering [...], dated July 29th 2005, and Par. 2.1 of the Minister of Finance's Regulation on the type of information that could prejudice legitimate interests of issuers [...], dated April 13th 2006, on June 21st 2016 the Company delayed the publication of information on the negotiations and their circumstances as its publication could adversely affect the progress or outcome of the negotiations and thus prejudice the Company's legitimate interests, and also because the Company was required to obtain the necessary corporate approval. The agreement provided for acquisition of unsecured consumer loan debt with a total nominal value of approximately EUR 352m (PLN 1.5bn, at the mid-rate quoted by the National Bank of Poland for June 23rd 2016), for approximately EUR 50.6m (PLN 221.6m, at the mid-rate quoted by the National Bank of Poland for June 23rd 2016). For more information, see Current Report No. 64/2016 of June 23rd 2016.

Debt purchase agreements with CEC Bank S.A.

On June 28th 2016, KRUK România SRL (KRUK Romania), a subsidiary of the Issuer, concluded a debt purchase agreement (Agreement) with CEC Bank S.A. (Bank), as a result of which the total value of agreements executed between the KRUK Group and the Bank over the 12 months before the date of the Agreement reached PLN 72.6m, VAT exclusive, and thus exceeded 10% of the Group's revenue for the last four financial quarters.

Under the Agreement, KRUK România SRL purchased from the Bank a portfolio of secured and unsecured debts with an aggregate nominal value of RON 313.3m (PLN 306.5m, at the mid-rate quoted by the National Bank of Poland for June 28th 2016), for RON 59.5m (PLN 58.2m, at the mid-rate quoted by the National Bank of Poland for June 28th 2016). For more information, see Current Report No. 69/2016 of June 28th 2016.

Senior notes issuance agreement

On July 29th 2016, to finance the purchase of debt, ProsperoCapital S.a r.l. of Luxembourg, a subsidiary of KRUK S.A., executed a senior note issuance agreement (Notes Issuance Agreement).

The parties to the agreement were ProsperoCapital, International Finance Corporation (a member of the World Bank Group) of Washington (IFC), and InvestCapital Malta Ltd. of Malta (ICM), a subsidiary of the Issuer, (referred to jointly as the Investors). Under the Note Issuance Agreement, ProsperoCapital issued registered senior notes (Senior Notes) of up to RON

255m (PLN 249.5m, at the exchange rate quoted by the NBP for July 29th 2016). The issuance will be applied towards payment of the purchase price of the debt (Price) as well as any other expenses to be incurred by ProsperoCapital in accordance with the Note Issuance Agreement. Investors will subscribe for the senior notes issued towards payment of the price on a pro rata basis, which is 33% in respect of IFC and 67% in respect of ICM.

For more information, see Current Report No. 82/2016 of July 29th 2016.

Debt purchase agreements with UniCredit Group entities

On October 19th 2016, KRUK S.A.'s subsidiary ItaCapital s.r.l. of Milan ("ItaCapital", "Buyer") entered into firm agreements with the UniCredit Group's UniCredit S.p.A. of Milan and Arena NPL One S.r.l. of Verona ("Agreements", "Sellers"). The agreements provided for purchase of unsecured consumer loan debts with a total nominal value of approximately EUR 938m (PLN 4bn translated at the mid-rate published by the NBP for October 19th 2016). For more information, see Current Report No. 99/2016 of October 18th 2016.

Agreement for acquisition of shares in Credit Base International S.r.l.

On November 7th 2016, KRUK S.A. concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy ("CBI") for acquisition of 100% of the shares in CBI ("Shares") ("Agreement"). Acceptance of the offer to acquire the Shares was announced in the Company's Current Report No. 101/2016 of October 28th 2016. The subject matter of the Agreement was the acquisition of 100% of the shares in CBI, free and clear of any encumbrances, restrictions or third-party rights. CBI's business involves the management of purchased debt portfolios and credit management services in Italy. CBI's 2015 consolidated revenue amounted to EUR 2.2m (PLN 9.5m at the PLN/EUR mid-rate quoted by the NBP for November 7th 2016). Under the Agreement, the Company also acquired the entire share capital of CBI's subsidiary Elleffe Capital S.r.l. of La Spezia, Italy. For more information, see Current Report No. 106/2016 of November 7th 2016.

Debt purchase agreements with Carrefour Group entity

On November 30th 2016, a firm agreement ("Agreement") was signed between the Company's subsidiary InvestCapital Malta Ltd. of Malta ("InvestCapital", "Buyer") and Spanish-based company of the Carrefour Group, Servicios Financieros Carrefour, E.F.C., S.A. of Madrid ("Agreement", "Seller"). The Agreement provided for purchase of an unsecured retail debt portfolio with

a total nominal value of approximately EUR 183m (PLN 807m translated at the mid-rate published by the NBP for November 30th 2016). For more information, see Current Report No. 114/2016 of November 30th 2016.

Agreement for acquisition of shares in Espand Soluciones de Gestion S.L.

On December 20th 2016, KRUK S.A. concluded an agreement with the shareholders of Espand Soluciones de Gestion S.L. of Madrid, Spain, for acquisition of 100% of the shares in Espand ("Shares") ("Agreement"). Acceptance of the offer to acquire the Shares was announced in the Company's Current Report No. 123/2016 of December 19th 2016. The subject matter of the Agreement was the acquisition of 100% of the shares in Espand, free and clear of any encumbrances, restrictions or third-party rights. Espand's business involves the management of purchased debt portfolios and credit management services in Spain. Espand's 2015 consolidated revenue amounted to EUR 4.1m (PLN 18.1m at the PLN/EUR mid-rate quoted by the NBP for December 20th 2016). For more information, see Current Report No. 124/2016 of December 20th 2016.

4.9.1.2 Agreements executed with Group companies

Loan agreement between KRUK S.A. and KRUK Česká a Slovenská republika s.r.o.

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

Loan agreement between InvestCapital Malta Ltd. and ItaCapital s.r.l.

On June 22nd 2016, InvestCapital Malta Ltd. ("InvestCapital" or "Lender"), a subsidiary of the Company, entered into a loan agreement with ItaCapital s.r.l. ("ItaCapital" or "Borrower"), another subsidiary of the Company ("Agreement"). Under the Agreement, InvestCapital granted a loan of EUR 50.9m (PLN 223.5m, translated at the mid-rate quoted by the National Bank of Poland for June 22nd 2016) to ItaCapital as bridge financing for a securitisation transaction executed by the Borrower. Both companies are subsidiaries of KRUK S.A. and members of the KRUK

Group. The Company holds a direct equity interest of 100% in ItaCapital and an indirect equity interest of 100% in InvestCapital. For more information, see Current Report No. 61/2016 of June 22nd 2016.

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

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

4.9.3 Loan agreements

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

On February 5th 2016, the Company ("Borrower") and BGŻ BNP Paribas S.A. ("Bank") signed an amendment to the multi-purpose credit facility agreement ("Credit Facility Agreement"), whereby the Bank increased the amount of credit facility advanced to the Borrower to PLN 100m, to be drawn also in the euro up to the equivalent of PLN 100m ("Credit Limit") and the parties set a new deadline for the final repayment for December 31st 2020. For more information, see Current Report No. 8/2016 of February 5th 2016.

On December 15th 2016, the Company and the Bank signed another amendment to the Credit Facility Agreement. Under the amendment, the Bank increased the amount of the Credit Limit to PLN 120m, to be drawn also in the euro up to the equivalent of PLN 120m. In the period between April 1st 2017 and the final maturity date (set for December 31st 2020), the Credit Limit will be reduced quarterly by PLN 7.5m.

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

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

The collateral for the Bank's receivables under the Credit Facility Agreement is a pledge under Luxembourg law over the Company's shares in SeCapital S.à r.l. As at December 31st 2016, the pledge existed over 77,383 Class D shares in SeCapital S.à r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 85,121,300. The

established security also includes a power of attorney over the Borrower's accounts maintained by the Bank and the Company's statement on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure.

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

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

On December 19th 2016, an annex was signed to the trilateral revolving credit facility agreement concluded by the Company and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") with Bank Zachodni WBK S.A. ("Bank"), as amended ("PROKURA Agreement"), whereby a new availability end date and the final repayment date were set for October 31st 2021.

On December 19th 2016, an annex was signed to the revolving credit facility agreement signed on April 8th 2011 between the Company (as the borrower) and Bank Zachodni WBK S.A., as amended (the Credit Facility Agreement). Under the annex:

- for the credit facility in the facility account of up to PLN 65m or its euro equivalent, the availability end date and the final repayment date were set for October 31st 2021;
- for the additional credit facility in the facility account of up to PLN 55m or its euro equivalent, the availability end date and the final repayment date were set for October 31st 2019.

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

The Bank's receivables under the Credit Facility Agreement and the Prokura Agreement, that is the PLN 140m principal amount (the aggregate amount of the facilities) and claims concerning interest, fees, commissions and expenses (if any), are secured with a pledge under Luxembourg law over the Company's shares in SeCapital S.à r.l. As at December 31st 2016, the pledge existed over 175,072 Class E shares in SeCapital S.à r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 192,579,200. The established security also includes a surety under civil law issued by KRUK S.A., a power of attorney over the Borrower's and the surety provider's selected accounts, as well as the Company's and the surety provider's statements on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure.

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

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

On July 6th 2016, an annex was signed to the trilateral revolving credit facility agreement concluded on July 2nd 2015 between KRUK S.A., the Company's subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ" or "Borrower") and mBank Spółka Akcyjna ("Bank"), as amended ("Credit Facility Agreement") for a credit facility of up to PLN 100m ("Credit Facility"). Under the annex, a new final repayment date was set for July 1st 2021. The Credit Facility was advanced for financing or refinancing up to 75% of the purchase price/instalment of the purchase price of debt portfolios to be purchased by the Borrower, in an amount of PLN 100m in the period until January 1st 2019; thereafter, in the period from January 2nd 2019 to July 1st 2021, the credit limit will be reduced quarterly by PLN 10m during the first six quarters and by PLN 8m during the remaining four quarters. The Credit Facility's interest rate was set on an arms' length basis, at a rate equal to the WIBOR rate for one-month interbank deposits in PLN, plus bank margin.

The Bank's receivables under the Credit Facility Agreement, that is the principal amount of up to PLN 100m as well as interest, fees, commissions and expenses (if any), are secured with a financial pledge over rights to cash in PROKURA NS FIZ's bank account and a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). As at December 31st 2016, the carrying amount of the registered pledge in KRUK S.A.'s accounting books was PLN 92.2m. The established security also includes a surety under civil law issued by KRUK S.A., a power of attorney over the Borrower's and the surety provider's selected accounts and a financial pledge over the Borrower's selected account.

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

Credit facility agreements concluded by NSFIZ PROKURA and KRUK S.A. with PKO BP S.A.

On June 20th 2016, KRUK S.A., its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NS FIZ" or "Borrower") and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("Bank") signed a trilateral credit facility agreement under which the Bank advanced to the Borrower

a credit facility in an amount of up to PLN 35.3m with the final repayment date set for December 19th 2020. The Bank's receivables under the credit facility agreement, that is the principal amount of PLN 35.3m as well as interest, fees, commissions and expenses (if any), are secured with a financial pledge over rights to cash in PROKURA NS FIZ's bank account and a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). As at December 31st 2016, the carrying amount of the registered pledge in the Borrower's accounting books was PLN 46.8m.

On December 5th 2016, KRUK S.A., its subsidiary PROKURA Niestandardowy Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty and the Bank signed a trilateral credit facility agreement under which the Bank advanced to the Borrower a credit facility in an amount of up to PLN 26.8m with the final repayment date set for June 4th 2021. The Bank's receivables under the credit facility agreement, that is the principal amount of PLN 26.8m as well as interest, fees, commissions and expenses (if any), are secured with a financial pledge over rights to cash in PROKURA NS FIZ's bank account. The credit facility agreement stipulates that the Bank's receivables will also be secured with a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). As at December 31st 2016, the pledge was not yet created.

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

Both credit facilities are advanced for financing or refinancing of up to 80% of the purchase price/instalment of the purchase price of debt portfolios to be purchased by the Borrower from the Bank.

The credit facilities' interest rate is variable and based at 1M WIBOR rate plus bank margin. The other provisions of the credit facility agreements, including in particular the provisions relating to disbursement of the facilities, default interest and withdrawal from or termination of the agreements, do not differ from standard provisions used in agreements of such type. The credit facility agreements stipulate no conditions precedent or subsequent.

Termination of credit facility and loan agreements

In 2016, the KRUK Group companies, except for Novum Finance Sp. z o.o. and KRUK S.A. in the NOVUM loans segment, did not terminate any credit facility or loan agreements.

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

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

In 2016, KRUK S.A. granted loans to its subsidiaries in the total amount of PLN 155.7m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates). Loans were advanced to the following companies:

- KRUK România SRL of Bucharest;
- KRUK Česká a Slovenská republika s.r.o. of Hradec Králové;
- RoCapital I.F.N. of Bucharest;
- Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław;
- Novum Finance Sp. z o.o. of Wrocław;
- Credit Base International S.r.l. of La Spezia;
- Secapital Polska Sp. z o.o. of Wrocław;
- ProsperoCapital Sp. z o.o. w likwidacji of Wrocław, a company in liquidation.

The interest rates were set at 1M or 3M WIBOR (for PLN loans), 1M or 3M PRIBOR (for CZK loans), 1M or 3M EURIBOR (for EUR loans) and 1M or 3M ROBOR (for RON loans) plus margin. The agreed maturities ranged from 350 days to one year.

Loans advanced to KRUK România SRL of Bucharest

The loans were granted to KRUK România SRL of Bucharest to finance its operating and investing activities. The loans granted in 2016 totalled PLN 82.8m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

Some of the loans – PLN 2.14m plus interest of PLN 0.05m, that is PLN 2.19m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for the date of the debt cancellation agreement) – were cancelled.

As at December 31st 2016, liabilities of KRUK România SRL towards KRUK S.A. under loans (principal) totalled PLN 100.2m (translated into PLN at the mid-rate quoted by the National Bank of Poland for December 31st 2016).

Loans advanced to RoCapital I.F.N. of Bucharest

The loans were granted to RoCapital I.F.N. of Bucharest to finance its operating and investing activities. The loans granted in 2016 totalled PLN 0.4m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

As at December 31st 2016, RoCapital I.F.N. had no outstanding liabilities towards KRUK S.A. under loans.

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

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové were intended for the financing of the company's operating and investing activities. The loans totalled PLN 48.02m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

As at December 31st 2016, all liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK S.A. under loans (principal) totalled PLN 63.72m (as translated into PLN at the mid-rate quoted by the NBP for December 31st 2016).

Loans advanced to Credit Base International S.r.l. of La Spezia

Loans advanced to Credit Base International S.r.l. were intended for the financing of the company's business. In 2016, Credit Base International S.r.l. received loans of PLN 1.68m (as translated at the exchange rate quoted by the NBP for the loan date).

As at December 31st 2016, Credit Base International S.r.l.'s outstanding liabilities towards KRUK S.A. under loans (principal) stood at PLN 1.68m.

Loans advanced to InvestCapital Malta Ltd. of Malta

As at December 31st 2016, InvestCapital Malta Ltd. of Malta's outstanding liabilities towards KRUK S.A. under loans (principal) stood at PLN 0.07m.

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

As at December 31st 2016, ERIF Business Solutions Sp. z o.o. of Wrocław's outstanding liabilities towards KRUK S.A. under loans, including interest, amounted to PLN 2.77m.

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

Loans advanced to Secapital Polska Sp. z o.o. of Wrocław were intended for the financing of the company's operations. The loans totalled PLN 0.05m.

As at December 31st 2016, outstanding liabilities of Secapital Polska Sp. z o.o. towards KRUK S.A. under loans (principal) totalled PLN 0.08m.

Loans advanced to ProsperoCapital Sp. z o.o. w likwidacji of Wrocław, a company in liquidation

Loans advanced to ProsperoCapital Sp. z o.o. w likwidacji of Wrocław were intended for the financing of the company's operations. The loans totalled PLN 0.05m.

As at December 31st 2016, outstanding liabilities of ProsperoCapital Sp. z o.o. towards KRUK S.A. under loans (principal) totalled PLN 0.05m.

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

Loans advanced to Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław were intended for the financing of the company's operating activities. The aggregate amount of loans advanced to the company in 2016 was PLN 0.5m.

As at December 31st 2016, Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa's outstanding liabilities towards KRUK S.A. under loans (principal) stood at PLN 0.5m.

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

Loans of PLN 22.1m advanced in 2016 by KRUK to Novum Finance Sp. z o.o. of Wrocław were intended for the financing the company's investing activities. As at December 31st 2016, the company's outstanding liabilities towards KRUK S.A. under loans, including interest, amounted to PLN 22.2m.

4.9.4.2 Loans received by the Company from subsidiaries

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

As at December 31st 2016, KRUK S.A.'s outstanding liabilities towards Novum Finance Sp. z o.o. under loans, including interest, stood at PLN 0.3m. Loans from Novum Finance Sp. z o.o. of Wrocław were used to repay some of loans from other subsidiaries.

Loan from RoCapital I.F.N. of Bucharest

In 2016, the Company received from RoCapital I.F.N. of Bucharest a loan of PLN 11.38m (as translated at the exchange rate quoted by the NBP for the loan date) intended for the financing of the Company's operations. As at December 31st 2016, the Company's outstanding liabilities towards RoCapital I.F.N. under the loan, including interest, amounted to PLN 11.1m.

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

Loans received from ERIF BIG S.A. of Warsaw were intended for the financing of the Company's operating activities. Loans received in 2016 totalled PLN 2m.

As at December 31st 2016, the Company's outstanding liabilities towards ERIF BIG S.A. under loans, including interest, amounted to PLN 2m.

4.9.3 NOVUM loans advanced by the KRUK Group

In 2016, the KRUK Group advanced an aggregate of 7.5 thousand Novum cash loans, for a net amount of PLN 24.7m. Until October 25th 2016 such loans were advanced by KRUK S.A.; since November 1st 2016 they have been advanced by Novum Finance Sp. z o.o.

As part of the Novum business line, consumer loans of up to PLN 7,500 were granted for periods from 3 to 24 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market. Since November 2016, NOVUM loans have also been offered to natural persons who have not been the KRUK Group's clients. Revenue from NOVUM loans posted by the Group in 2016 was PLN 16.8m, which means a year-on-year increase of 66%.

Loans advanced by subsidiaries to other subsidiaries

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

In 2016, InvestCapital Malta LTD of Malta advanced to ItaCapital S.r.l. of Milan a loan of PLN 325.3m (as translated at the exchange rate quoted by the NBP for the loan date), which was intended for the financing of the company's investing activities. As at December 31st 2016, ItaCapital S.r.l.'s outstanding liabilities towards InvestCapital Malta LTD under loans (principal) stood at PLN 104.4m (as translated into PLN at the mid-rate quoted by the National Bank of Poland for December 31st 2016).

Loans advanced by InvestCapital Malta LTD to KRUK România SRL

In 2016, InvestCapital Malta LTD of Malta advanced to KRUK România SRL of Bucharest a loan of PLN 37.6m (as translated at the exchange rate quoted by the NBP for the loan date), which was intended for the financing of the company's investing activities. As at December 31st 2016, KRUK România SRL had no outstanding liabilities towards InvestCapital Malta LTD under loans.

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

In 2016, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław advanced to Prokura NS FIZ of Wrocław a loan of PLN 8.4m, which was intended for the financing of the fund's investing activities.

As at December 31st 2016, the Prokura NS FIZ fund's outstanding liabilities towards KRUK Towarzystwo Funduszy Inwestycyjnych S.A. under loans (principal) stood at PLN 8.4m (as translated into PLN at the mid-rate quoted by the National Bank of Poland for December 31st 2016).

4.9.4 Guarantees

On November 29th 2016, KRUK S.A. signed an annex to a bank guarantee agreement with Bank Zachodni WBK S.A. and received Annex 2, dated November 30th 2016, to the bank guarantee of December 17th 2014 issued to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a lease agreement for a part of an office building, executed between KRUK S.A. and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2017. The guarantee amount is EUR 278,107.07 and PLN 186,303.75. The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A. In accordance with the terms of the annex to the bank guarantee agreement, on January 11th 2017, the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to EUR 0.4m and PLN 0.3m.

In connection with a PLN 20m share capital cancellation completed on April 20th 2016 in InvestCapital Malta Ltd., which was to become final by July 29th 2016, on April 20th 2016 KRUK S.A. issued a corporate guarantee to InvestCapital Malta for up to PLN 20m. The guarantee expired on July 29th 2016. The purpose of the guarantee was to secure the interests of InvestCapital Malta Ltd's creditors, who could challenge the share cancellation by July 29th 2016.

In connection with a PLN 22.2m share capital cancellation completed on July 18th 2016 in InvestCapital Malta Ltd., which was to become final by December 16th 2016, on July 18th 2016 KRUK S.A. issued a corporate guarantee to InvestCapital Malta for up to PLN 22.2m. The guarantee expired on December 16th 2016. The purpose of the guarantee was to secure the interests of InvestCapital Malta Ltd's creditors, who could challenge the share cancellation by December 16th 2016.

In connection with a PLN 10.3m share capital cancellation completed on December 20th 2016 in InvestCapital Malta Ltd., which will become final by March 20th 2017, on December 20th 2016 KRUK S.A. issued a corporate guarantee to InvestCapital Malta for up to PLN 10.3m. The guarantee will expire on March 10th 2017. The purpose of the guarantee is to secure the interests of InvestCapital Malta Ltd's creditors, who can challenge the share cancellation by March 20th 2017.

4.9.4.5 Sureties

Following the execution on June 20th 2016 of a credit facility agreement by the Company, Prokura NS FIZ and PKO BP S.A., on June 20th 2016 the Company entered into a surety agreement ("Surety Agreement") with PKO BP S.A., whereunder KRUK S.A. issued a surety for the liabilities of Prokura NS FIZ under the credit facility agreement, thus becoming a joint and several debtor in respect of the liabilities (as announced by KRUK S.A. in Current Report No. 58/2016). The surety was issued for up to PLN 52,971,106.80. It will expire not later than on December 19th 2022. In accordance with the terms of the Surety Agreement, on June 20th 2016 the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 52,971,106.80.

Following the execution on December 5th 2016 of a credit facility agreement by the Company, Prokura NS FIZ and PKO BP S.A., on December 5th 2016 the Company entered into a surety agreement ("Surety Agreement") with PKO BP S.A., whereunder KRUK S.A. issued a surety for the liabilities of Prokura NS FIZ under the credit facility agreement, thus becoming a joint and several debtor in respect of the liabilities. The surety was issued for up to PLN 40,140,000.00. It will expire not later than on June 4th 2024. In accordance with the terms of the Surety Agreement, on December 5th 2016 the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 40,140,000.00.

Following the execution on July 6th 2016 of an annex to the revolving credit facility agreement of July 2nd 2015 by Prokura NS FIZ, the Company and mBank S.A., on July 6th 2016 the Company entered into Annex 1 to the surety agreement of July 2nd 2015 with mBank S.A., whereunder KRUK S.A. issued a surety for the liabilities of Prokura NS FIZ under the revolving credit facility agreement, as amended, thus becoming a joint and several debtor in respect of the liabilities. The surety was issued for up to PLN 150m. It will expire not later than on July 1st 2024.

Following the execution on December 19th 2016 of an annex to the trilateral revolving credit facility agreement of February 18th 2013 ("Prokura Agreement") by the Company, Prokura NS FIZ and Bank Zachodni WBK S.A. ("Bank"), and in connection with the surety agreement ("Surety Agreement") executed on October 16th 2015 by the Company and Bank Zachodni WBK S.A., whereunder the Company issued a surety for Prokura NS FIZ's liabilities towards the Bank under the Prokura Agreement, thus becoming a joint and several debtor in respect of the liabilities until expiry of the liabilities covered by the Prokura Agreement. On January 18th 2017, the Company made a new declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 30m.

4.10 Court, administration and arbitration proceedings

4.10.1 General information

As part of the ordinary course of business, the Company and its subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2016, the Company and its subsidiaries were plaintiffs or participants in 596,395 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 11,450,812,513. Furthermore, in 2016, 1,105,660 enforcement proceedings were pending upon motions filed by the Company and its subsidiaries, with a total value of claims being enforced of approximately PLN 15,800,831,162. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and its subsidiaries.

In 2016, the Company and its subsidiaries were defendants in 4,407 court proceedings, where the total value of claims was approximately PLN 388,346,622. They were chiefly proceedings against enforcement instigated in connection with the Company's or its subsidiaries' operating activities involving debt recovery. The Company and its subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or its subsidiaries where the value of claims would exceed 10% of the Company's equity.

No bankruptcy or recovery proceedings were conducted with respect to the Company or its subsidiaries. In the case of the subsidiary NOVUM FINANCE Sp. z o.o., by a resolution of the company's extraordinary general meeting of July 29th 2016, the previous decision to liquidate the company was revoked.

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

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

4.10.3 Proceedings with the highest value of claims, below 10% of the Company's equity, concerning the Company's and its subsidiaries' liabilities

Among the proceedings concerning liabilities where the value of claims did not exceed 10% of the Company's equity, the claim with the highest value – PLN 28,098,166.18 – was brought in the proceedings against Secapital S.a r.l. for annulment of contract and/or abusive

clauses, pending in Romania. The subsidiary expects the claim to be dismissed in its entirety.

4.10.4 Proceedings with the highest value of claims, below 10% of the Company's equity, concerning debts owed to the Company and its subsidiaries

Among the court proceedings concerning debts where the value of claim did not exceed 10% of the Company's equity, the claim with the highest value – PLN 31,525,232 – was brought in the bankruptcy proceedings concerning PROKURA NSFIZ's claims, pending against Zakłady Przetwórstwa Tworzyw EKO-PET sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy). Planned sale of that company was unsuccessful. Moreover, bankruptcy proceedings concerning PROKURA NSFIZ's claims are pending against Libertów Sp. z o.o. w upadłości (in bankruptcy) – the value of the claim is PLN 30,828,937.83. The Company expects its claim to be satisfied to a small extent. It should also be noted that in the case of debts purchased in Spain, bankruptcy proceedings are pending against TIERRAS DE VALENCIA S.A. (value of the claim: PLN 27,820,735.08) and against VITELCOM MOBILE TECHNOLOGY S.A. (value of the claim: PLN 26,408,384.62). The subsidiary expects its claims to be satisfied in both proceedings. In Romania, bankruptcy proceedings are pending against HELCO S.R.L. – value of the claim: PLN 27,298,923.92; one of the creditors is KRUK România SRL. The subsidiary expects its claim to be satisfied to a large extent.

4.11 Material events after December 31st 2016

Debt purchase agreement with Banca IFIS

On January 16th 2017, a firm agreement was signed between ItaCapital S.r.l. of Milan and Banca IFIS of Venice. The Agreement provides for purchase of unsecured consumer loan debts with a total nominal value of EUR 744.6m.

The Agreement is subject to a condition precedent that the debts covered by the Agreement will be assigned to the Buyer upon payment of the Price. In accordance with the Agreement, the Price will be paid within 10 days from the Agreement date. The Agreement does not provide for any contractual penalties. Other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

CIRS contracts with Bank Zachodni WBK S.A.

In 2017, the Company and Bank Zachodni WBK S.A. entered into two cross currency interest rate swap contracts ("CIRS"). The contracts hedge both the currency and the

interest rate risk by effective exchange of the Company's debt contracted in the złoty for EUR-denominated liabilities:

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

4.12 Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to facilitate the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2016, the strategy of building the platform to support operating processes remained unchanged – the Company's internal resources continued to develop the platform, improving its flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its key operational processes.

4.13 Environmental issues

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



An impressionistic painting of a waterfall and river. The waterfall is the central focus, with white, frothy water cascading down a rocky ledge. To the left, a river flows towards the viewer, reflecting the light. The background is filled with soft, dappled light in shades of yellow, green, and blue, suggesting a bright, sunny day. The overall style is loose and painterly, with visible brushstrokes and a focus on light and color over fine detail.

Corporate governance

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

5. Corporate governance

5.1

Statement of compliance with corporate governance standards

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

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

5.1.1

Adopted code of corporate governance

In 2016, the Company applied corporate governance standards described in the Best Practice for WSE Listed Companies (Corporate Governance Principles, the Code of Best Practice), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13th 2015. The document is available on the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) dedicated to corporate governance (<http://www.corp-gov.gpw.pl>).

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

The text of the statement, specifying the extent to which the Company intends to comply with the standards, is available on KRUK S.A.'s website, at: <https://pl.kruk.eu/relacje-inwestorskie/o-spolce#dobre-praktyki-spek-notowanych-na-gpw>.

5.1.2

Corporate governance standards which the Company elected not to comply with

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

The Company elected not to comply with principle III.Z.3 of the Code of Best Practice 2016, whereby the independence criteria specified in the generally recognised International Standards for the Professional Practice of Internal Auditing apply to a person managing the internal audit function and to other people responsible for performance of the related tasks. The Management Board notes that the Company has established within its organisational structure a separate internal audit unit, which is objective,

independent and impartial, reports directly to the President of the Management Board, and also has the possibility of reporting directly to the audit committee in accordance with principle III.Z.2., however, the principle of organisational independence developed by the Institute of Internal Auditors (USA), i.e. the principle of direct functional reporting to the Supervisory Board, does not apply to the person managing the internal audit function. In the opinion of the Management Board of KRUK S.A., transposition of the US legal regulations to Poland would cause dual responsibility of the person managing the internal audit function, which would be unfavourable to the Company.

The Company elected not to comply with the recommendation included in IV.R.2. of the Code of Best Practice 2016, whereby, if justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular using real-life broadcast of general meetings and real-time bilateral communication, where shareholders may take the floor during a general meeting from a location other than the general meeting, and to exercise voting rights during a general meeting either in person or through a proxy. The shareholding structure of KRUK S.A. is fragmented, but in the Management Board's opinion not to an extent that would justify the conduct of General Meetings using means

of electronic communication. The Company's major shareholders are professional investors, both Polish and foreign, represented at General Meetings by proxies. As far as the Company is currently aware, the existing manner of conducting General Meetings is in line with its shareholders' expectations. At the same time, the Company has identified certain risks to the proper conduct of General Meetings, particularly legal risks, which in the Company's opinion would outweigh the potential benefit of a larger number of shareholders being able to participate.

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

5.2 Shareholding structure

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

Table 32 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at January 1st 2016, based on shareholder notifications received by the Company.

Table 33 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at December 31st 2016.

Table 34 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at February 27th 2017.

Table 32. Shareholders with significant holdings in KRUK S.A. as at January 1st 2016

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

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

** Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on November 29th 2016

Source: the Company

Table 33. Shareholders with significant holdings in KRUK S.A. as at December 31st 2016

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	1,919,841	10.82
NN PTE*	1,992,000	11.23
Aviva OFE**	1,100,000	6.20
Generali OFE**	1,065,000	6.00

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

** Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on November 29th 2016

Source: the Company

Table 34. Shareholders with significant holdings in KRUK S.A. as at February 27th 2017

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	1,969,841	10.51
NN PTE*	1,992,000	10.63
Aviva OFE**	1,100,000	5.87
Generali OFE**	1,065,000	5.68

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

** Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on November 29th 2016

Source: the Company

5.2.2 Changes in the shareholding structure in the reporting year

Below are described changes in significant holdings of KRUK S.A. shares in 2016.

- On January 5th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.
- On April 4th 2016, the Company received a notification from Piotr Krupa to the effect that Mr Krupa had sold 17,500 shares in KRUK S.A., at the average price of PLN 182.85 per share, in an ordinary session transaction executed on the Warsaw Stock Exchange on March 31st 2016, and 30,000 shares in KRUK S.A., at the average price of PLN 178 per share, in a block trade executed on the WSE on April 1st 2016.
- On July 15th 2016, July 26th 2016, and September 30th 2016, the Company received notifications from Piotr Krupa concerning sale of KRUK S.A. shares in ordinary trades executed on the WSE on July 13th 2016 (32,000 shares at the average price of PLN 209.00 per share), July 25th 2016 (10,000 shares at the average price of PLN 205.90 per share), and September 29th 2016 (9,000 shares at the average price of PLN 245.72 per share).
- On December 7th 2016, the Company received a notification from Piotr Krupa to the effect that on December 7th 2016 Mr Krupa had acquired 1,414 shares in KRUK S.A., at the average price of PLN 211.56 per share, in ordinary session trades on the Warsaw Stock Exchange.
- On December 22nd 2016, the Company received a notification from Piotr Krupa to the effect that on December 22nd 2016 Mr Krupa had acquired 50,000 shares in KRUK S.A., at the average price of PLN 215 per share, outside a trading venue.

5.2.3 Treasury shares

Treasury shares in the period May 1st 2015 – May 9th 2016

On May 28th 2014, the Annual General Meeting of KRUK S.A. authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, in the period from May 1st 2015 to June 30th 2019, with the proviso that the total par value of the shares so purchased may not exceed PLN 1.5m, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 50m, including the share price and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 150 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares purchased by the Company as part of the buy-back programme may be used:

- to implement the Management Stock Option Plan operated by the Company under Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014;
- to retire the Company's own shares and reduce its share capital;
- for further resale.

Decisions as to the purpose of acquisition of own shares and the manner of their use are made by the Company's Management Board by way of a resolution. The Management Board may also, depending on the Company's interests, finish the buy-back of shares before June 30th 2019 or before all funds intended to be spent on the buy-back programme are used up, or may altogether abandon the buy-back of shares in whole or in part.

The resolution of the General Meeting was revoked by a resolution of the Extraordinary General Meeting of May 9th 2016, authorising the Management Board to buy back the Company's own shares.

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

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

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

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

5.2.4 Holders of securities conferring special control powers

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

5.2.5 Limitations on the exercise of voting rights

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

5.2.6 Limitations on transfer of ownership of securities

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

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

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

5.3 Governing bodies

5.3.1 Management Board

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

The Company's management body is the Management Board.

In the period January 1st – December 31st 2016, the Company's Management Board consisted of five members. Composition of the Management Board in 2016 is presented in Table 35.

Table 35. Composition of the Management Board of KRUK S.A. in 2016

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

Source: the Company

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

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

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

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.

5.3.1.2 Powers of the Management Board

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

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

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

By virtue of Resolution No. 33/2016 of the Annual General Meeting of KRUK S.A. of Wrocław, held on May 9th 2016, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

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

Table 36 presents Company shares or rights to Company shares held by Management Board members as at January 1st 2016.

Apart from the changes in the number of shares held by Piotr Krupa, President of the Management Board, described in the Section entitled Shareholding structure, in the period from January 1st 2016 to the date of issue of this report, there were also changes in the holdings of Company shares owned by Iwona Słomska, Urszula Okarma, Agnieszka Kułton, and Michał Zasępa.

On February 25th 2016, the Company received a notification from Urszula Okarma of her acquisition of 16,130 Series E shares in the Company. According to the notification, the shares were acquired on February 25th 2016, when 16,130 Series E shares were registered in the securities account of the Notifying Party as a result of the exercise of the rights attached to 16,130 Series D subscription warrants issued as part of an incentive scheme, authorising the Notifying Party to subscribe for the shares at the issue price of PLN 39.70 per share.

On March 30th 2016, the Company received notifications from three members of KRUK S.A.'s Management Board, given under Art. 160.1 on the Act on Trading in Financial Instruments, to the effect that Iwona Słomska had sold 8,880 shares in KRUK S.A. at the average price of PLN 183 per share on March 29th 2016; Michał Zasępa had sold 6,120 shares in KRUK S.A. at the average price of PLN 183.02 per share on March 29th 2016; and Agnieszka Kułton had sold 5,721 shares in KRUK S.A. at the average price of PLN 184.01 per share on March 23rd 2016 and 5,000 shares at the average price of PLN 183 on March 29th 2016, in ordinary session transactions executed on the Warsaw Stock Exchange.

On April 13th 2016, the Company received a notification from Michał Zasępa, given under Art. 160.1 of the Act

Table 36. KRUK S.A. shares held by Management Board members as at January 1st 2016

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

Source: the Company

on Trading in Financial Instruments, to the effect that Mr Zasępa had sold 3,689 shares in KRUK S.A., at the average price of PLN 182.01 per share, and 5,000 shares in KRUK S.A., at the average price of PLN 181.11 per share, in ordinary session transactions executed on the Warsaw Stock Exchange on April 11th 2016 and April 12th 2016, respectively.

On June 28th 2016, the Company received a notification from Iwona Słomska of her acquisition of 14,880 Series E shares in the Company. According to the notification, the shares were acquired on June 27th 2016, when 14,880 Series E shares were registered in the securities account of the Notifying Party as a result of the exercise of the rights attached to 14,880 subscription warrants issued as part of an incentive scheme, authorising the Notifying Party to subscribe for the shares at the issue price of PLN 39.70 per share.

On June 28th 2016, the Company received a notification from Agnieszka Kułton of her acquisition of 16,130 Series E shares in the Company. According to the notification, the shares were acquired on June 27th 2016, when 16,130 Series E shares were registered in the securities account of the Notifying Party as a result of the exercise of the rights attached to 16,130 subscription warrants issued as part of an incentive scheme, authorising the Notifying Party to subscribe for the shares at the issue price of PLN 39.70 per share.

On June 28th 2016, the Company received a notification from Michał Zasępa of his acquisition of 32,637 Series E shares in the Company. According to the notification, the shares were acquired on June 27th 2016, when 32,637 Series E shares were registered in the securities account of the Notifying Party as a result of the exercise of the rights attached to 32,637 subscription warrants issued as part of an incentive scheme, authorising the Notifying Party to subscribe for the shares at the issue price of PLN 39.70 per share.

On July 4th 2016, the Company received a notification from Agnieszka Kułton, given under Art. 19 of the MAR.

According to the notification, the Notifying Party had sold, in ordinary session trades on the Warsaw Stock Exchange, 39 shares in KRUK S.A. at the average price of PLN 200.00 per share on June 30th 2016 and 500 shares in KRUK S.A. at the average price of PLN 200.82 per share on July 1st 2016.

On July 15th 2016, the Company received a notification from Michał Zasępa, given under Art. 19 of the MAR. According to the notification, the Notifying Party had sold, in ordinary session trades on the Warsaw Stock Exchange, 2,982 shares in KRUK S.A. at the average price of PLN 209.83 per share on July 12th 2016 and 2,018 shares in KRUK S.A. at the average price of PLN 209.06 per share on July 13th 2016.

On July 25th 2016, the Company received a notification from Iwona Słomska, made under Art. 19 of the MAR. According to the notification, the Notifying Party had sold, in ordinary session transactions executed on the Warsaw Stock Exchange, 2,890 shares in KRUK S.A. at the average price of PLN 206.00 per share on July 20th 2016 and 3,000 shares in KRUK S.A. at the average price of PLN 206.00 per share on July 25th 2016.

On September 30th 2016, the Company received a notification from Michał Zasępa, given under Art. 19 of the MAR, to the effect that he had sold 4,001 Company shares in ordinary session trades executed on the Warsaw Stock Exchange on September 29th 2016, at the average price of PLN 246.89 per share.

On December 9th 2016, the Company received a notification from Michał Zasępa, given under Art. 19 of the MAR, to the effect that on December 8th 2016 Mr Zasępa had acquired 250 shares in KRUK S.A., at the average price of PLN 215.96 per share, in ordinary session trades on the Warsaw Stock Exchange.

Members of the management or supervisory bodies holding Company shares or rights to Company shares as at February 27th 2017.

Table 37. KRUK S.A. shares held by Management Board members as at December 31st 2016

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

Source: the Company

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

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

As at the end of 2016, the Management Board members, except for Iwona Słomska, performed their duties based on managerial contracts executed by the Company with Piotr Krupa, Agnieszka Kułton and Urszula Okarma on March 19th 2012, and with Michał Zasępa on September 1st 2013, while Iwona Słomska was engaged under an employment contract.

Under the executed contracts, the Management Board members were entitled to monthly remuneration in the amounts specified therein. Irrespective of their salary, they could receive additional remuneration (a bonus) and discretionary bonuses. The decision on the award and amounts of discretionary bonuses rested with the Supervisory Board.

The President of the Management Board received a bonus for the performance of the financial plan for a given financial year, in accordance with the terms of his contract.

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

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

in the relevant contract, based on the percentage of the plan performance.

The terms of the managerial contracts corresponded to the terms of mandates of the Management Board members and expired 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 could be terminated by its parties on three months' notice. In the case of the President of the Management Board, the notice period was nine months. Managerial contracts could also be terminated by its parties without notice in circumstances indicated in the contracts.

The contracts contained provisions prohibiting the members, without the Company's written consent, from taking additional paid jobs while the contract is in force, as well as non-compete clauses effective during the contract term and for 2 (two) years from the day on which a given person ceases to be a member of the Management Board of KRUK S.A. The contracts with the Management Board members (except for the President of the Management Board) provided for relevant compensation in respect of the prohibitions. The compensation was payable in monthly instalments for 24 months from the contract termination date and amounted to 40% of the person's remuneration (12 months and 25% of the remuneration in the case of the Member of the Management Board in charge of Marketing, Public Relations and Human Resources).

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

Tables 39 and 40 present the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2016) from the Company and its subsidiaries for 2015 and 2016.

Table 38. KRUK S.A. shares held by Management Board members as at February 27th 2017

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,969,841	1,969,841
Agnieszka Kułton	Member of the Management Board	61,611	61,611
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	41,110	41,110
Michał Zasępa	Member of the Management Board	35,383	35,383

Source: the Company

The total value of remuneration and additional benefits for 2016 paid by the Company and its subsidiaries to the Management Board members specified above amounted to PLN 4,821.2 thousand and PLN 29.7 thousand, respectively. In 2015, the respective amounts were PLN 4,438.02 thousand and PLN 28.7 thousand.

Additional benefits received from the Company for 2016 do not include bonuses and awards for the Management Board members for 2016. The bonuses will be paid in 2017, in the amount reflecting the performance of the Company's financial plan, and – in the case of the discretionary bonuses – in an amount determined by the Supervisory Board. In addition, in accordance with the Supervisory Board's resolutions of July 20th 2012, August 5th 2013, and June 12th 2014, passed under the

Company's Incentive Scheme for 2011–2014 for key members of the management staff of the Company and other Group companies, the Supervisory Board granted the Management Board members (excluding the President) subscription warrants conferring the rights to acquire KRUK S.A. shares.

Moreover, as part of the 2015–2019 Stock Option Plan, members of the Management Board will be offered subscription warrants in the number specified in the Management Board's Resolution of October 24th 2016 and Supervisory Board's Resolution of October 27th 2016, subject to fulfilment of certain conditions specified in the General Meeting's Resolution No. 26/2014 of May 28th 2014.

Table 39. Remuneration of the Management Board members in 2016

Name and surname	Remuneration from the Company in 2016	Additional benefits* from the Company in 2016	Remuneration from the subsidiaries in 2016	Additional benefits* from the subsidiaries in 2016
	(PLN '000)			
Piotr Krupa	1507	6.56	-	-
Agnieszka Kułton	807	6.34	11.69	-
Urszula Okarma	807	5.20	18.00	-
Iwona Słomska	724	5.33	-	-
Michał Zasępa	888	64.77	-	-

* Additional benefits include medical care, rent allowance, Christmas gifts, and company cars

Source: the Company

Table 40. Remuneration of the Management Board members in 2015

Name and surname	Remuneration from the Company in 2015	Additional benefits* from the Company in 2015	Remuneration from the subsidiaries in 2015	Additional benefits* from the subsidiaries in 2015
	(PLN '000)			
Piotr Krupa	1387	6.30	-	-
Agnieszka Kułton	762	6.25	10.72	-
Urszula Okarma	762	5.17	18.00	-
Iwona Słomska	643	5.23	-	-
Michał Zasępa	792	69.51	-	-

* Additional benefits include medical care, company cars and third-party liability insurance for Management Board members

Source: the Company

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

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

On December 15th 2016, the Company executed new managerial contracts with members of the Management Board, which came into force as of January 1st 2017.

Under the new contracts, the Management Board members are entitled to monthly remuneration in the amounts specified therein. Irrespective of their salary, they may receive discretionary bonuses. The decision on the award and amounts of discretionary bonuses rests with the Supervisory Board.

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

In accordance with the executed contracts, in the event of termination or rescission of a contract by the Company, except for termination on grounds whereby the contract may be terminated with immediate effect, without notice and compensation, and except where a Management Board member is removed due to his or her wilful misconduct, the Management Board member will be entitled to additional remuneration.

The contracts executed with the Management Board members contain provisions prohibiting the members from engaging in, participating or taking an interest in any commercial or business activities without notifying the Supervisory Board (in the case of the President of the Management Board) or without the President of the Management Board’s written consent (in the case of other Management Board members), as well as non-compete clauses effective during the contract term and for 2 (two) years from the day on which a given person ceases to be a member of the Management Board of KRUK S.A. The contracts with the Management Board members provide

for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date, and will amount to 80% of the person’s remuneration over the first 12 months, and 60% over the next 12 months.

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

5.3.2 Supervisory Board

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

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

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

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

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

From January 1st 2016 to December 31st 2016, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. is presented in Table 41.

In view of the expiry of the term of office of the Supervisory Board 2016, the shareholder Piotr Krupa appointed Krzysztof Kawalec and Piotr Stępnia, in accordance with rules specified above, to the Supervisory Board of the new term of office, effective from May 9th 2016. Also, by resolutions passed on May 9th 2016, the Annual General Meeting of KRUK S.A. appointed the remaining five Supervisory Board members for the subsequent term of office. Pursuant to the Supervisory Board’s resolution of May 31st 2016, Piotr Stępnia was appointed Chairperson of the Supervisory Board of KRUK S.A.

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

5.3.2.2 Operation of the Supervisory Board

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

- reviewing financial statements and the Directors' Report on the Company's operations for the previous financial year, in terms of their consistency with the accounting books, relevant documents and with the facts, and assessing the Management Board's recommendations concerning the distribution of profit or coverage of loss;
- submission to the General Meeting of a written annual report on results of the review referred to in item above;
- appointing and removing from office the President of the Management Board;
- appointing and removing from office members of the Management Board (including Vice-Presidents);
- suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- determining the amount of remuneration of the President of the Management Board;
- approving the Company's annual financial plans (the budget) and strategic economic plans;
- granting consent for the Company to contract loans or issue bonds, other than loans or bonds provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, with

the exception of loans to be contracted with companies of the KRUK Group;

- granting consent to creating security, providing surety or creating other encumbrances over the Company's assets other than provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, unless only entities of the KRUK Group are parties to the transaction. Consent of the Supervisory Board is not required to create security or provide surety in respect of loans and bonds which have been provided for in the budget or approved by the Supervisory Board;
- granting consent for the Company to contract liabilities under a single transaction or a series of related transactions with a total value in excess of the equivalent of 5% of the Company's equity in a given financial year, other than liabilities provided for in the budget or arising in the Company's ordinary course of business;
- granting consent to the Company acquiring or subscribing for shares in other commercial companies or joining other businesses which are not KRUK Group entities;
- granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen percent) of the Company's net book value as determined on the basis of the last audited financial statements, other than any acquisition or disposal provided for in the budget, and except for any acquisition or disposal of assets from or to entities of the KRUK Group;
- granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other

Table 41. Composition of the Supervisory Board of KRUK S.A. in 2016

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

Source: the Company

than provided for in the budget would exceed PLN 500,000 (five hundred thousand PLN);

- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's full-year financial statements, referred to in Article 395 of the Polish Commercial Companies Code, in accordance with the Polish and international accounting standards;
- granting consent to the execution of or amendment to agreements concluded between the Company or its subsidiary and Management or Supervisory Board members;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1m (one million PLN) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary, to the extent such disposals or commitments are outside the scope of the Company's business, in an amount exceeding PLN 200,000 (two hundred thousand PLN) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to the purchase or disposal of property, perpetual usufruct rights or interests in property by the Company, excluding property purchased or sold as part of debt management.

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

Supervisory Board resolutions are passed with an absolute majority of voting rights of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. A resolution of the Supervisory Board is valid when all Supervisory Board members have been invited to the meeting and at least half of them attend the meeting.

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

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

As at December 31st 2015, Tomasz Bieske, member of the Supervisory Board, held 5,680 shares in the Company. On January 8th 2016, the Company received a notification from Tomasz Bieske, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Bieske had sold 5,038 shares in KRUK S.A. in ordinary session transactions executed on the Warsaw Stock Exchange.

On June 24th 2016, the Company received a notification from Tomasz Bieske to the effect that on June 24th 2016 Mr Bieske had sold 642 shares in KRUK S.A., at the average price of PLN 191.08 per share, in ordinary session trades on the Warsaw Stock Exchange.

On November 4th 2016, the Company received a notification from Tomasz Bieske to the effect that on November 4th 2016 Mr Bieske had acquired 350 shares in KRUK S.A., at the average price of PLN 198 per share, in ordinary session trades on the Warsaw Stock Exchange.

On November 10th 2016, the Company received a notification from Tomasz Bieske to the effect that on November 9th 2016 Mr Bieske had acquired 1,050 shares in KRUK S.A., at the average price of PLN 195.19 per share, and that on November 10th 2016 he had acquired 300 shares in KRUK S.A., at the average price of PLN 197.09 per share, in ordinary session trades on the Warsaw Stock Exchange.

On November 18th 2016, the Company received a notification from Tomasz Bieske to the effect that on November 18th 2016 Mr Bieske had sold 1,535 shares in KRUK S.A., at the average price of PLN 193.88 per share, in ordinary session trades on the Warsaw Stock Exchange. As at December 31st 2016 and as at the date of issue of this report, Mr Bieske held 165 Company shares and did not hold any other rights to KRUK S.A. shares.

To the best of the Company's knowledge, other Supervisory Board members did not hold any Company shares or rights to Company shares in the period from the issue of the previous annual report (for 2015) to the date of this report.

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

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

Table 42 presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2016) from the Company and its subsidiaries for 2015 and 2016.

The total remuneration received from the Company by the Supervisory Board members named above for 2016 amounted to PLN 792.8 thousand. The amount includes the remuneration payable in the euro, translated into the złoty at the exchange rate quoted by the NBP for the day preceding the payment day.

In 2016, neither the Company nor its subsidiaries paid any additional benefits to members of the Supervisory Board.

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

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

5.3.2.5 Supervisory Board Committees

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

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

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

Audit Committee

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

The Audit Committee's responsibilities include in particular:

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

After the Supervisory Board of a new term of office had been appointed on May 9th 2016, on May 31st 2016 the Supervisory Board of KRUK S.A. passed a resolution under which it re-appointed the Audit Committee for the new term.

Table 42. Remuneration of the Supervisory Board members

Surname, first name	Remuneration from the Company for 2015	Remuneration from the Company for 2016
		(PLN '000)
Beuch Katarzyna	83.7	93.5
Bieske Tomasz	83.7	93.5
Jastrzębski Arkadiusz	83.7	93.5
Kawalec Krzysztof	83.7	93.5
Koński Robert	83.7	93.5
Stępnia Piotr	167.4	186.1
Wancer Józef	201.2	139.0*

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

Source: the Company

In the period January 1st – December 31st 2016, the Audit Committee consisted of:

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

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

Apart from statutory duties, in 2016 the Audit Committee dealt in particular with:

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

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

Remuneration and Appointment Committee

The 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; the Remuneration and Appointment Committee should mainly include independent Supervisory Board members.

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

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

Until the Supervisory Board of the new term of office was appointed, the Remuneration and Appointment Committee's composition had been as follows:

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

After the Supervisory Board of a new term of office had been appointed on May 9th 2016, on May 31st 2016 the Supervisory Board of KRUK S.A. passed a resolution under which it appointed the Remuneration and Appointment Committee for the new term, composed of:

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

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

In 2016, the tasks of the Committee included issuing opinions on remuneration and bonuses for the Company's Management Board and changes to the list of persons eligible to participate in the Stock Option Plan for 2015–2019. At its meetings, the Remuneration and Appointment Committee also discussed the provisions of new managerial contracts, signed with the members of the Company's Management Board on December 15th 2016. Matters within the remit of the Remuneration and Appointment Committee were discussed during the Committee's meetings, teleconferences and Supervisory Board meetings.

Finance and Budget Committee

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

After the Supervisory Board of a new term of office had been appointed on May 9th 2016, on May 31st 2016 the Supervisory Board of KRUK S.A. passed a resolution under which it appointed the Finance and Budget Committee.

In the period January 1st – December 31st 2016, the Finance and Budget Committee consisted of:

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

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

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

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

In 2016, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets, as well as financial matters related to the Company's operations. Matters within the remit of the Finance and Budget Committee were discussed during the Committee's meetings and Supervisory Board's meetings. The Committee also held consultations in the form of teleconferences.

5.3.3 General Meeting

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

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

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

An Extraordinary General Meeting may be convened by the Management Board (acting on its own initiative or at the request of shareholders representing at least half of

the share capital or voting power within the Company), by the Supervisory Board (if it deems it advisable to do so) or by shareholders authorised to do so by the registry court under Art. 400.3 of the Commercial Companies Code.

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

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

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

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

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

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

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

- review and approval of the Directors' Report on the Company's operations and the financial statements for the previous financial year;
- decisions as to distribution of profit or coverage of loss;
- granting discharge to members of the Management Board and the Supervisory Board in respect of their performance of duties;
- decisions concerning claims for redress of any damage inflicted in connection with establishment of the Company or in connection with managing or supervising the Company;
- disposal or lease of the Company's business or its organised part and establishment of limited property rights thereon;
- amendments to the Company's Articles of Association;
- an increase or reduction of the share capital;
- merger, transformation or demerger of the Company;
- dissolution of the Company and opening of its liquidation;
- passing resolutions approving the Rules of Procedure for the General Meeting and the Rules of Procedure for the Supervisory Board;
- consideration and resolution of proposals put forward by the Supervisory Board;
- other matters reserved for the General Meeting under the provisions of the Articles of Association or the applicable laws.

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

5.4

Rules governing amendments to the Company's Articles of Association

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

The Company's Articles of Association do not include any provisions relating to their amendment which would stipulate in this respect any other rules than those defined in the Commercial Companies Code.

5.5

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

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

To eliminate risks related to the preparation of financial statements, the Group, on an annual basis, submits the financial statements, including subsidiaries' financial statements, to be audited by a charter auditor, takes stock of assets, and monitors on an on-going basis the performance of individual business areas against the targets and objectives assumed in financial plans.



An impressionist painting of a landscape, likely Mont Sainte-Victoire, featuring a large green tree on the left, a stone wall or bridge in the middle ground, and a body of water in the foreground. The style is characterized by visible brushstrokes and a soft, hazy atmosphere.

Other information

- Performance of Company shares on the Warsaw Stock Exchange
- Investor Relations in 2016
- CSR policy
- Glossary of terms

6. Other Information

6.1 Performance of Company shares on the Warsaw Stock Exchange

6.1.1 Share price

In 2016, the market price of KRUK shares increased 38%, outperforming the broad market. Over that period, the WIG index went up by 11%, and the mWIG40 index of mid-cap companies (including KRUK) – by 18%. The strengthening of the KRUK stock price was supported by favourable prospects for the debt collection industry in Poland and Europe, good performance announced by the Group and positive recommendations issued by analysts working for brokerage houses. In 2016, the Company's market capitalisation exceeded PLN 4.2bn, and in September 2016, at the close of trading,

the market price peaked at PLN 255.95, to close the year at PLN 237.50.

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 2016, the rate of return on KRUK shares was 497%. Over the same period, the WIG index, reflecting the dynamics of the entire stock market, rose by 45%, while the mWIG40 index (of mid-cap companies) went up by 6%.

6.1.2 Liquidity

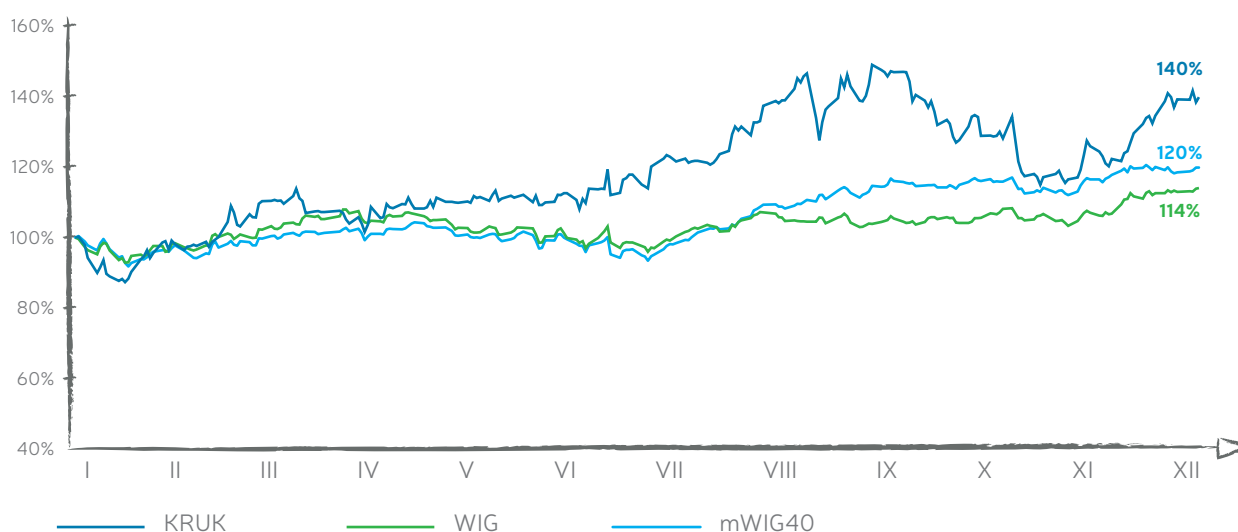
The total volume of KRUK S.A. shares traded in 2016 was 9.4m, and the total value of trading reached PLN 1,806.9m. The average monthly volume of trade in KRUK shares in 2016 exceeded PLN 790 thousand, up almost 80% on 2015. The record high monthly trade volume

Table 43. Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2016 – closing prices

Date	KRUK	WIG	mWIG40
2016-01-04	PLN 169.25	PLN 45,356.65	PLN 3,512.57
2016-12-30	PLN 237.50	PLN 51,754.03	PLN 4,215.54
rate of return	37.6%	11.4%	18.2%

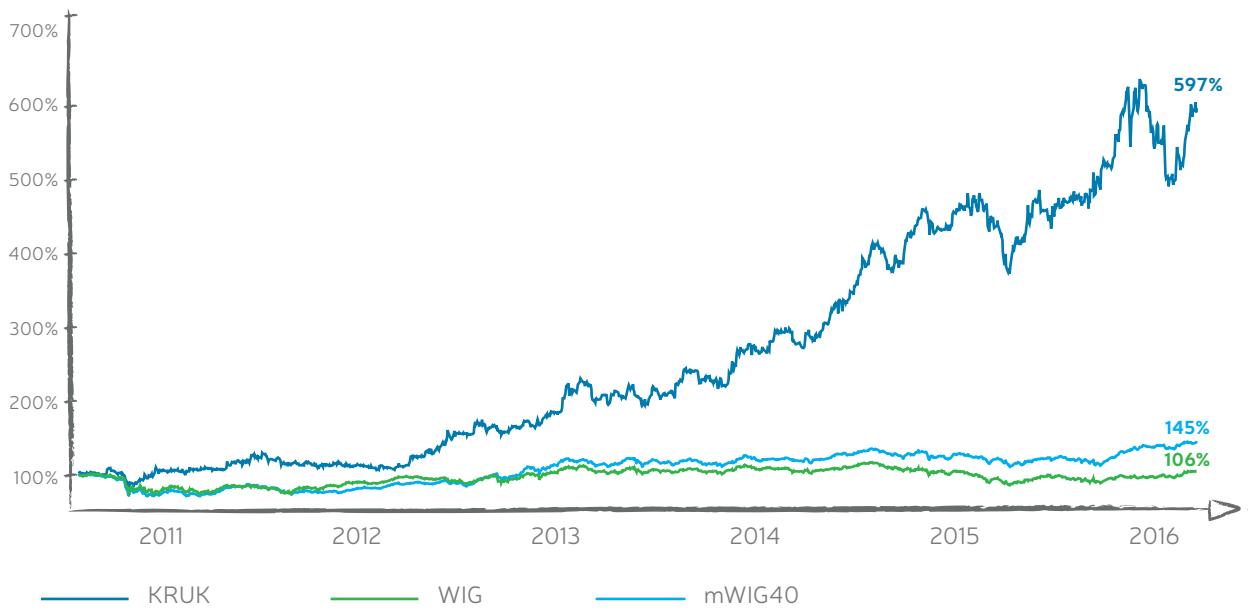
Source: stooq.pl

Chart 7. KRUK S.A. stock price against WIG and mWIG40 in 2016 (beginning of the year = 100%)



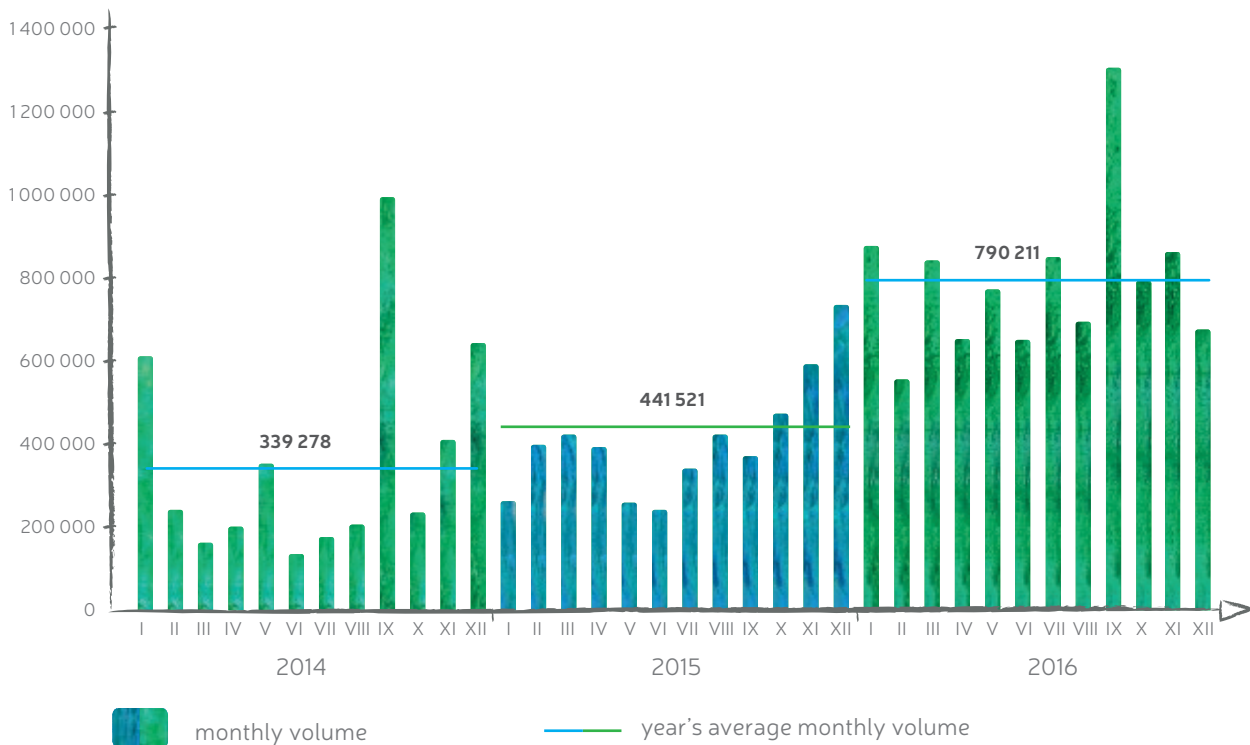
Source: In-house analysis, based on stooq.pl

Chart 8. Performance of KRUK stock against WIG and mWIG40 from the Company's IPO at the WSE in May 2011 until the end of 2016



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

Chart 9. Monthly volume in individual months and the year's average monthly volume of trade in KRUK shares in 2014–2016



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

(1.3m) was recorded in August. In the same month, the price of KRUK shares hit its all-time high of PLN 255.95. The average monthly value of trade in KRUK shares in 2016 was PLN 150.8m, up 127% on 2015.

6.2 Investor Relations in 2016

The Company's activities and initiatives in the Investor Relations area are targeted at:

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

Investor Relations initiatives improve brand recognition and stimulate interest in the Company among domestic and foreign investors, who provide us with positive feedback. In addition, such efforts enhance knowledge of the Company among those investors who maintain regular contact with KRUK. As result of its Investor Relations efforts, the Company is ranked high by analysts and investors. For more information on key Investor Relations activities in 2016, see Table 44.

Polish institutional stock and bond investors

- Four conferences organised following the publication of results for 2015, Q1 2016, H1 2016 and Q1–Q3 2016.
- Participation in the Wood Emerging Europe Financials Conference in Warsaw, June 2016.
- Participation in the mBank Financial Event in October 2016.
- Participation in the Financial Companies on the WSE conference organised by DM Millenium, December 2016.
- Mailing to investors on material events at the Company.
- Continuous contact with investors.

Polish retail stock and bond investors

- Participation in the Wall Street 20 conference organised by the Polish Association of Retail Investors in June 2016.
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website.
- Continuous contact with investors.

Foreign institutional stock investors

- Four teleconferences organised following the publication of results for 2015, Q1 2016, H1 2016 and Q1–Q3 2016.
- Four non-deal roadshows in Frankfurt, Stockholm, New York, Boston, Chicago and London.
- Participation in the Polish Capital Market – London 2016 conference organised by PKO BP.
- Participation in the Poland Capital Markets Day – New York conference organised by Auerbach and IPOPEMA.
- Participation in the Erste Group Investor Conference 2016 – Stegersbach.
- Participation in the Polish Capital Markets Day – Paris conference organised by Societe Generale.
- Participation in WOOD's Winter in Prague Emerging Europe Conference 2016.
- Mailing to investors on material events at the Company.
- Continuous contact with investors.

Brokerage house and investor bank analysts

- Four conferences organised following the publication of results for 2015, Q1 2016, H1 2016 and Q1–Q3 2016.
- Mailing to investors on material events at the Company.
- Continuous contact with analysts.

The Table 45 lists analysts issuing recommendations on Company stock.

Table 44. Key Investor Relations activities in 2015

	Number of non-deal roadshows	Number of investor conferences	Duration of roadshows and investor conferences, in days
Poland	4	4	8
Foreign markets	4	5	14

Source: In-house analysis

Including updates, the Company received eight recommendations from analysts in 2016, of which four were BUY and three were HOLD recommendations.

Financial journalists

- Four conferences organised following the publication of results for 2015, Q1 2016, H1 2016 and Q1–Q3 2016.
- Press releases concerning key corporate events.
- Interviews and comments by Company representatives in financial media (e.g. Parkiet, Puls Biznesu, Stockwatch or Forbes).
- Maintaining the Company's profile on Stockwatch.

The key themes of the Company's 2016 market communication included:

- Communication of the implementation of the 2015–2019 strategy, covering product range development and growth in geographical regions, including the new markets: Italy, Spain and Germany.
- Payment of dividend of PLN 2.0 per share – the second dividend distribution since the Company's stock exchange debut.

- Purchase of debt portfolios involving the all-time high expenditure of PLN 1.3bn, including acquisition of PRESCO's portfolio in Poland, joint purchase with IFC of a portfolio on the Romanian market, as well as purchases of material portfolios on the Italian and Spanish markets.
- Public bond issues with an aggregate value of PLN 340m, as part of the Third and Fourth Public Bond Issue Programmes.
- Improved liquidity of the Company's stock on the Warsaw Stock Exchange (trading volume up 79% year on year) and inclusion in the FTSE Russel index (since 2015, the Company is included in the MSCI Poland Small Cap index). The Company currently uses the services of four market makers on the WSE.

Table 45. Sell-side analysts issuing recommendations on Company stock

Company	Analyst	Contact details
DM BDM	Maciej Bobrowski	bobrowski@bdm.pl
DM BZ WBK	Dariusz Górski	dariusz.gorski@bzwbk.pl
DM Erste Group	Mateusz Krupa	mateusz.krupa@erstegroup.com
DM Haitong Bank	Kamil Stolarski	kamil.stolarski@haitongib.com
DM Ipopema	Łukasz Jańczak	lukasz.janczak@ipopema.pl
DM mBank	Michał Konarski	michal.konarski@mdm.pl
DM PKO BP	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
DM Trigon	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
DM Vestor	Michał Fidelus	michal.fidelus@vestor.pl
Wood & Co.	Jerzy Kosiński	jerzy.kosinski@wood.com

Source: In-house analysis

Table 46. Number of recommendations received in 2016

Number of recommendations in 2016:		
8		
BUY* 4	HOLD 3	SELL 1

* or ACCUMULATE


Source: In-house analysis

6.3 CSR policy

As KRUK is not a production company, the overview presented below does not address any of the issues traditionally associated with corporate social responsibility, such as environmental protection. However, the Company boasts certain socially relevant initiatives, both on a small scale (intended to benefit its employees) and with a wider reach (regional or – as in the case of support for financial education – nationwide).

Charitable sponsorship

In 2016, the KRUK Group continued its charitable sponsorship initiatives. For the fourth time, it partnered the Business Run charity event organised to raise money for sick children in need. The idea behind the Business Run is to promote healthy rivalry and physical activity among employees of Lower Silesian companies: both small enterprises and international corporations. Almost five thousand runners took part in the event, held in Wrocław on May 14th 2016.



The Group was also a charitable sponsor of the Concert of Hope, an initiative of the Wrocław-based 'To the Rescue of Kids with Cancer' Foundation.

The Group was also a charitable sponsor of the Concert of Hope, an initiative of the Wrocław-based 'To the Rescue of Kids with Cancer' Foundation. All proceeds from the concert were used to finance the treatment of children with cancer and equipment for the 'Cape of Hope' oncology hospital. The Group also actively supported smaller charitable organisations.

It is worth adding that the KRUK Group has implemented employee sponsorship, through which it supports amateur sports activities of its employees.

The KRUK Group's educational initiatives

Initiated by the KRUK Group, 'Day without Debts' is held annually on November 17th in Poland and Romania, and on November 15th in the Czech Republic and Slovakia. In 2016, it was again actively observed in all those countries. 'Day without Debts' is designed to make people aware of how important it is for a person

in a dire financial situation to undertake negotiations with the creditor. It is also an opportunity to teach people responsible borrowing and budget planning. Every year, the initiative is joined by more companies supporting the idea.

A detailed description of the Day without Debts 2016 is included in Section 4.5.3 The Group's marketing and PR activities.

Initiated by ERIF BIG S.A., 'Good Credit Record Day' is yet another interesting educational initiative of the KRUK Group. It is observed on May 21st all over Poland. The idea behind the event is to explain to Poles what a good credit record is and why it is worth building. It is also aimed to show the benefits of a sound credit history to consumers and how it may help them establish relationships with various companies and institutions.


Advice and sponsored articles

In 2016, the KRUK Group prepared a number of advice articles, which were published in trade and lifestyle magazines. The subjects covered included indebtedness and guidance for reaching a settlement with the creditor, as well as planning and monitoring of household finances. Such publications were intended in particular to encourage readers to face up to their financial problems. Based on real life cases, solutions were presented that can help debtors get out of financial troubles. Articles covering such subjects also supported the information campaigns run in 2016 by the KRUK Group on its markets.

Educational projects for children and adults

In 2016, in cooperation with the Debtors Support Association, the KRUK Group organised a series of 'Small step, giant chance' workshops for debtors – beneficiaries of the Municipal Social Welfare Centres and Municipal Family Welfare Centres in Gdańsk, Warsaw, Piła and Wałbrzych. Such workshops were also organised in Katowice and Wrocław. Over 100 people participated, learning practical methods of overcoming financial problems and controlling their expenses.

The KRUK Group is also involved in educational initiatives targeted at children and young people. In the 2016/17 school year, the Group has become a partner in the ninth edition of the 'Live financially! Financial management in private life' project, run by the Society for the Promotion of Financial Education at 22 schools all over Poland. At participating schools, additional classes are held in financial knowledge, including indebtedness and household budgeting. The KRUK Group has prepared household budgeting notebooks, to be distributed among pupils covered by the project.



In 2016, in cooperation with the Debtors Support Association, the KRUK Group organised a series of 'Small step, giant chance' workshops for debtors – beneficiaries of the Municipal Social Welfare Centres.

The KRUK Group's employees in charitable initiatives

As in previous years, in 2016 numerous KRUK Group employees participated in blood donor sessions. The Group partners with the Regional Centre for Blood Donation and Haemotherapy in Wrocław and Wałbrzych. KRUK also supports public blood donor sessions coordinated by the Centre, especially during periods of peak demand for blood. A large number of Group employees have also registered in the bone marrow donor base, which was possible thanks to KRUK's partnership with the DKMS Foundation in 2016.

First aid courses for KRUK employees

The KRUK Group employees interested in first aid courses could participate, free of charge, in two-day professional in-house training. The courses were conducted by professional paramedics, who familiarised the participants with first aid procedures based on the latest guidelines of the European Resuscitation Council.

Diversity Charter and Policy

Since 2013, KRUK is a signatory of the Diversity Charter, an international initiative promoted by the European Commission and implemented in EU countries including Poland, Germany, Spain, Italy, Luxembourg, France, Austria, Sweden, Belgium, Ireland and Estonia. A signatory undertakes a written commitment to create and promote diversity and eliminate discrimination at the workplace. The charter is each signatory's declaration of readiness to involve all its staff as well as business and social partners in diversity-oriented initiatives. By implementing this tool, an organisation commits to working towards social cohesion and equality. The KRUK Group has implemented and follows a Diversity Policy.

6.4 Glossary of terms

Auditor	Ernst & Young Audyt Polska Sp. z o.o. sp. k., Rondo ONZ 1, 00-124 Warsaw, Poland, Reg. No. 130 – the Company's auditor
CAGR	Cumulative Average Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	Represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months
EPS	Earnings per share
EUR, euro	Euro
Financial Liabilities	<p>Represent total financial liabilities under:</p> <ul style="list-style-type: none"> • bonds or other similar debt securities; or • loans; or • bank borrowings; or • finance leases; or • promissory notes issued by way of security for liabilities of non-KRUK Group entities; or • guarantees or sureties provided in respect of repayment of liabilities of non-KRUK Group entities under bank borrowings, loans, finance leases, bonds or other similar debt securities; or • accession to debt owed by non-KRUK Group entities under bank borrowings, loans, finance leases, bonds or other similar debt securities; or • assumption of liabilities of non-KRUK Group entities under bank borrowings, loans, finance leases, bonds or other similar debt securities; or • liabilities arising under derivatives contracts
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
The Group, the KRUK Group	The Company as the Parent along with its subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
ItaCapital	ItaCapital S.r.l of Milan, Italy
Second Public Bond Issue Programme	The Second Public Bond Issue Programme carried out under the prospectus approved by the Polish Financial Supervision Authority on December 22nd 2014
Kancelaria Prawna RAVEN	Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK Espana	KRUK Espana S.L. of Madrid, Spain

KRUK Italia	KRUK Italia S.r.l of Milan, Italy
KRUK România	KRUK România SRL of Bucharest, Romania
KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards endorsed by the European Union, including International Accounting Standards, International Financial Reporting Standards and related Interpretations endorsed by the European Union
NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, Prokulus NS FIZ
GDP	Gross Domestic Product
PLN	Polish złoty
UOKiK President	President of the Office of Competition and Consumer Protection
Incentive Scheme	An incentive scheme for 2011–2014 implemented by the Company for the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase
2015–2019 Incentive Scheme	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)
Prokulus NS FIZ	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)
Supervisory Board	The Company's Supervisory Board
ROE	Return on Equity, computed as the ratio of consolidated net profit to equity as at the end of period
RON	Romanian leu
Regulation on current and periodic information	The Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 209, item 1744, as amended)
SeCapital Luksemburg	SeCapital S.à.r.l. (Luxembourg)
SeCapital Polska	SeCapital Polska Sp. z o.o. of Warsaw
Consolidated financial statements	The Group's consolidated financial statements for the reporting period ended December 31st 2015, prepared in accordance with the IFRS
The Company; KRUK; the Issuer	KRUK S.A. of Wrocław

Subsidiaries	The Company's subsidiaries, as defined in the Polish Accountancy Act, and Kancelaria Prawna RAVEN
Articles of Association	The Company's Articles of Association
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
USD	US dollar
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board
Employment	Number of employees (on a full- and part-time basis), including personnel under employment contracts and civil-law contracts.

Signatures of Management Board Members

The Directors' Report on the operations of the KRUK Group in 2016 is presented by the Company's Management Board, consisting of the following members:

Piotr Krupa

CEO and President of the Management Board



Urszula Okarma

Member of the Management Board



Agnieszka Kulon

Member of the Management Board



Iwona Słomska

Member of the Management Board



Michał Zasępa

Member of the Management Board



Wrocław, February 27th 2017



KRUK Group
www.kruk.eu, ir@kruksa.pl

Vincent van Gogh *Seascape Near Les Saintes-Maries De La Mer*, The Van Gogh Museum