



*KRUK S.A. Directors' Report
on operations of KRUUK S.A. in 2016*



Table of contents

1	OVERVIEW OF THE COMPANY.....	4
1.1	General information about the Company.....	4
1.2	Business model.....	4
1.3	Financial highlights for 2016.....	5
2	MARKET AND REGULATORY ENVIRONMENT – External factors with a bearing on the Company’s business.....	6
2.1	Structure and description of the debt management market.....	6
2.2	Legal and regulatory environment.....	6
3	OVERVIEW OF THE COMPANY’S BUSINESS.....	9
3.1	Company’s business and branches.....	9
3.2	Organisational structure.....	9
3.3	Changes in the structure of the KRUK Group.....	11
3.4	Changes in the Company’s and Group’s significant management policies.....	12
3.5	Share capital.....	12
3.6	Changes in the Company’s share capital.....	13
3.7	Company’s products and services.....	14
3.8	Material events with a bearing on the Company’s operations during the financial year.....	16
3.9	Non-recurring factors and events.....	16
3.10	Material events after December 31st 2016.....	17
3.11	Executed agreements.....	17
3.12	Securities issued.....	21
3.13	Loans advanced and sureties and guarantees granted; sureties and guarantees received.....	24
3.14	Development directions and prospects.....	27
3.15	Capital expenditure programme.....	29
4.	OPERATIONAL AND FINANCIAL REVIEW.....	37
4.1.	Basis of preparation of the full-year separate financial statements.....	37
4.2.	General information about current and expected financial position.....	37
4.3.	Revenue by product.....	38
4.4.	Structure of assets and liabilities in the Company’s statement of financial position.....	40
4.5.	Cash flows.....	40
4.6.	Material off-balance sheet items by counterparty, subject matter and value.....	41
4.7.	Financial ratios.....	41
4.8.	Explanation of differences between actual financial performance and previously published forecasts.....	41
4.9.	Financial instruments.....	41
5.	CORPORATE GOVERNANCE.....	45
5.1	Statement of compliance with corporate governance standards.....	45
5.1.1.	Adopted code of corporate governance.....	45
5.1.2.	Corporate governance standards which the Company elected not to comply with.....	45
5.2.	Shareholding structure.....	46
5.2.1.	Shareholders holding directly or indirectly significant holdings of shares in KRUK S.A.	46
5.2.2.	Changes in the shareholding structure in the reporting year.....	47
5.2.3.	Treasury shares.....	48
5.2.4.	Holders of securities conferring special control powers.....	49

5.2.5. Limitations on the exercise of voting rights	49
5.2.6. Limitations on transfer of ownership of securities	49
5.2.7. Agreements which may give rise to changes in ownership interests held by the existing shareholders or bondholders.....	49
5.3. Incentive Scheme.....	49
5.4. Dividend policy	51
5.5. Governing bodies.....	52
5.5.1. Management Board.....	52
5.5.2. Supervisory Board	60
5.5.3. General Meeting.....	66
5.6. Rules governing amendments to the Company's Articles of Association	68
5.7. Key features of internal control and risk management systems used in the process of preparation of financial statements and consolidated financial statements	68
6. OTHER INFORMATION	69
6.1. Court, administration and arbitration proceedings	69
6.2. Auditors	69
6.3. Major research and development achievements	70
6.4. Environmental issues	70
6.5. Performance of Company shares on the Warsaw Stock Exchange	70
6.5.1. Share price.....	70
6.5.2. Liquidity	72
6.6. Investor Relations in 2016	72
6.7. CSR policy	75
6.8. Glossary of terms.....	78

1 OVERVIEW OF THE COMPANY

1.1 General information about the Company

Form of incorporation of the Parent

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

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

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

Contact details

Name: KRUK SPÓŁKA AKCYJNA

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

Telephone: (+4871) 79 02 800

Fax: (+4871) 79 02 867

Corporate website: <http://pl.kruk.eu/>

1.2 Business model

KRUK S.A. is the parent of the KRUK Group. A comprehensive overview of the Group’s business and sources of revenue is presented in the Director’s Report on the Operations of the KRUK Group. In the Management Board’s opinion, reading this document is essential for proper and thorough assessment of the Company’s performance in 2016.

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

1.3 Financial highlights for 2016

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

As at the end of 2016, the Company's total headcount was 1,609 staff (vs. 1,367 at the end of 2015). The table below presents selected data and financial highlights for 2016, with comparative data for 2015.

Table 1. The Company's financial performance in 2015–2016

	Period ended Dec 31		
	2016	2015	Change
	(PLN '000, unless stated otherwise)		
Revenue	132,126	116,788	14%
EBITDA	(40,659)	(47,065)	14%
Operating profit (EBIT)	(49,774)	(53,603)	-7%
Net finance income	68,102	94,122	-28%
Net profit for the period	4,212	35,843	-88%
Cash flows from operating activities	-65,875	106,380	162%
Cash flows from investing activities	-594,732	-171,571	247%
Cash flows from financing activities	818,337	45,881	1684%
Total net cash flows	157,730	-19,309	-917%
 Total assets	 2,362,301	 1,441,677	 64%
Equity	701,251	499,537	40%

Source: the Company.

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

2.1 Structure and description of the debt management market

In 2016, KRUK was active mainly on the Polish and Romanian markets. During the year, KRUK operated in the debt purchase segment of the Polish and Romanian markets and provided credit management services in Poland, to both external clients and entities of the KRUK Group. For a description of the debt management market and its structure, and the presentation of the key factors affecting the Company’s business, see section “Structure and description of the debt management market” of the Director’s Report on the operations of the KRUK Group.

2.2 Legal and regulatory environment

The operations of KRUK S.A. are governed by laws and regulations described in the sections below. Investors are advised to read the “Legal and regulatory environment” section of the Directors’ Report on the Operations of the KRUK Group in 2016.

2.2.1. Securitisation funds

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. Since April 1st 2015, KRUK S.A. has also managed the securitised debt of Prokura NS FIZ. The performance of such agreements is subject to the PFSA’s oversight.

2.2.2. Private detective services

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

2.2.3. Outsourcing of debt collection by banks

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

2.2.4. Personal data protection

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.

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

Key changes in laws and regulations in 2016 applicable to the Company's business:

- 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.

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

2.2.6. Other regulators and authorities important for the Company's operations

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

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

3 OVERVIEW OF THE COMPANY'S BUSINESS

3.1 Company's business and branches

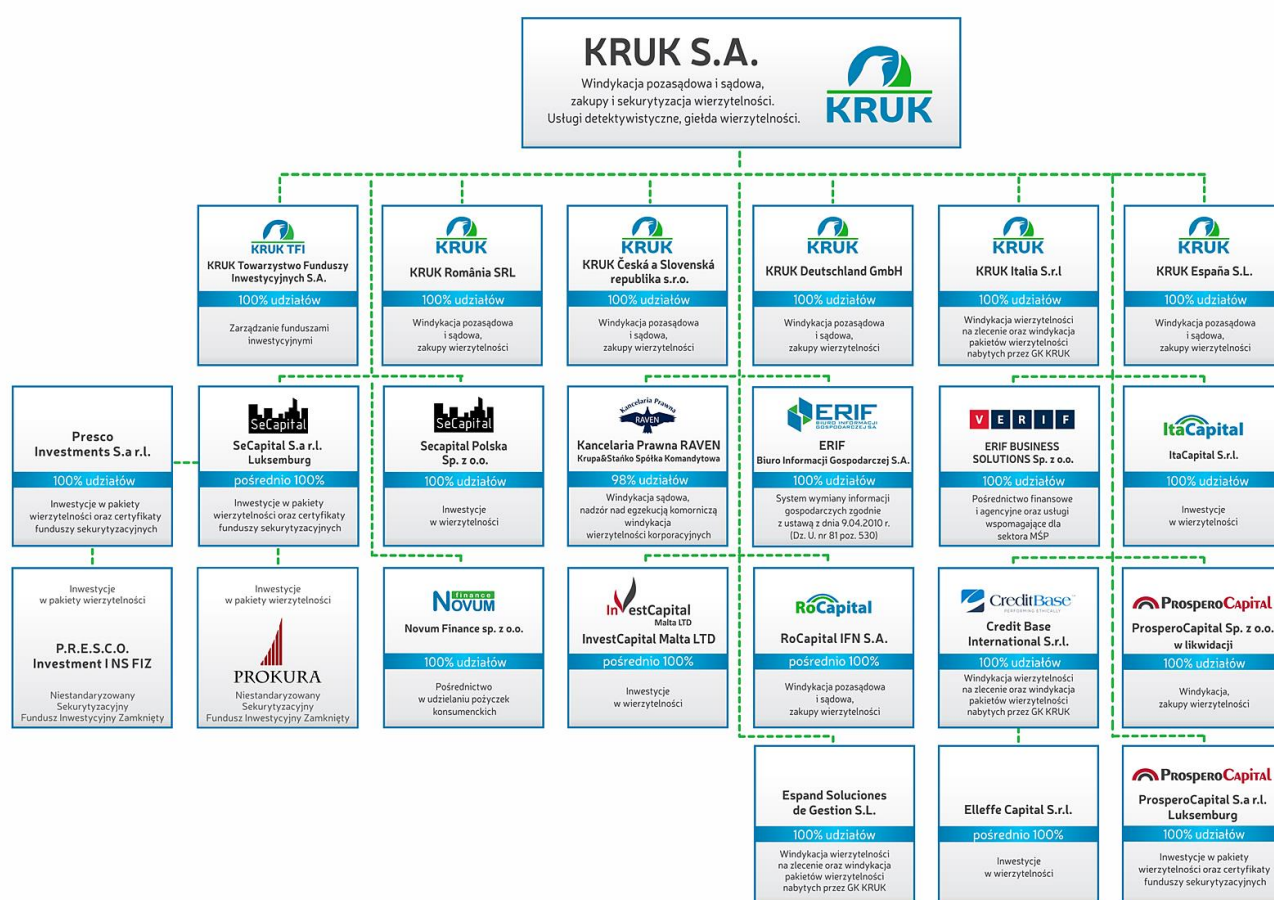
KRUK S.A. is the parent of the KRUK Group. The Company's core business is debt collection, including debt purchase and credit management services.

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

3.2 Organisational structure

The structure of the KRUK Group as at December 31st 2016 and KRUK S.A.'s ownership interests in subsidiaries are shown in Figure 1.

Figure. 1.1 Structure of the KRUK Group



Source: the Company.

As at December 31st 2016, the Group comprised KRUK S.A. (the Parent) and 23 subsidiaries. For more information on the subsidiaries, see Table 2.

Table 2. 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 Romania S.r.l	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	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 España S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. 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.

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.

3.3 Changes in the structure of the KRUK Group

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.à r.l. is the only investor in Prokura NS FIZ, holding 100% of its investment certificates.

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

In 2016, SeCapital S.à 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.

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

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

3.5 Share capital

3.5.1. Structure of the Company's share capital

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 3. 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 4. 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.

3.6 Changes in the Company's share capital

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

Table 5. 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	CR* 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	CR No. 66/2016
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.

3.7 Company's products and services

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

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

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

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

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

Loss prevention services

Detective investigation

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

Credit management services

Collection monitoring

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

Amicable collection of commercial and consumer debts

The purpose of the amicable debt collection process is to recover debt as quickly as possible, using the most effective tools for particular debt categories. Amicable collection encompasses a very broad range of activities. Its processes are differentiated and personalised. They use numerous tools chosen according to the specific nature of the client's cases and the client's needs. Accordingly, each debt

portfolio accepted for management is analysed, and relevant know-how, knowledge of the industry, and selection of an appropriate collection process for a given case type facilitate effective credit management and accurate planning of future transactions. KRUK also conducts restructuring processes and offers agreements for debt repayment in instalments. In our amicable collection activities, we put emphasis on reaching the debtor, establishing contact with them, and agreeing on feasible options of debt repayment.

Field consultants

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

Repossession of collateralised assets

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

Administration of mortgage-backed debt cases

The process used with respect to mortgage-backed debts includes all tools available for individual services. The main assumption is a case-by-case approach and precise adaptation of the process to the nature of mortgage debt (high balances, security provided in the form of mortgage over real estate). The process has been designed based on non-standard solutions, where KRUK S.A.'s advisors act in a double role of an advisor and the creditor. For this service, the main assumption is individual treatment of each case and providing support in the amicable phase of the collection process on the basis of received authorisations. After a case is accepted for collection, it undergoes a detailed review in terms of its status, the financial situation of the Client, and quality of the security. Then, depending on the findings, steps are undertaken to restore regular repayments, arrange credit restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate). In the course of collection of mortgage-backed debts, we conduct proceedings also in the court and enforcement phase. As part of credit management services we also offer debt recovery by way of court and enforcement proceedings, provided through Kancelaria Prawna RAVEN, a Group company.

Hybrid services using ERIF Biuro Informacji Gospodarczej

ERIF Biuro Informacji Gospodarczej provides an efficient support for the Company's operations. The process of amicable collection, combined with the possible sanction of entering the debtor's details in ERIF, is a hybrid service, unique on the Polish market.

The Pożyczka Novum loan service

As part of the service, until October 25th 2016 the Company granted short-term cash loans to debtors who have repaid or regularly repay their debts to the Group. As part of the NOVUM business line, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 months. On November 1st 2016, the consumer loan service was launched at Novum Finance Sp. z o.o. The lending service is also intended to diversify the Group's revenue sources. Revenue from the NOVUM business line reported by the Group in 2016 was PLN 16.8m, up 66% year on year, as the Group advanced more than 7 thousand NOVUM cash loans with a net value of PLN 24.7m.

In 2016, KRUK S.A. discontinued its consumer lending business, and, upon deletion of the relevant entry from the National Court Register, the Company assigned its receivables under loans to Novum Finance Sp. z o.o. and to P.R.E.S.C.O. Investment I NS FIZ fund.

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

On April 15th 2016, the Management Board of KRUK S.A. 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 or third-party rights, with a total par value of PLN 39,005,000, was transferred to KRUK S.A.'s subsidiary Secapital S.a r.l. 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.

On November 7th 2016, the Parent concluded an agreement with the shareholders of Credit Base International S.r.l. of La Spezia, Italy, for acquisition of 100% of the shares in CBI. The subject matter of the agreement is 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. will also acquire 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.

On December 20th 2016, the Parent 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. The subject matter of the agreement is 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.

3.9 Non-recurring factors and events

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

3.10 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.

3.11 Executed agreements

3.11.1. Material agreements

This section lists material agreements executed by KRUK S.A. in 2015. Agreements concluded by other Group companies are presented in detail in the Directors' Report on the operations of the KRUK Group.

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.

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.

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.

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.

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

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

3.11.3. New and terminated loan or credit facility 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 Niestandaryzowany 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.

3.12. Securities issued

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.

Table 6. 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.

Redemption of bonds

In 2016, the Company redeemed the debt securities specified in Table 6 on the maturity dates set forth in the terms and conditions of relevant series.

Table 7. 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 30.0m
O ² + P ¹	December 2016	40,000	PLN 40m
		total	PLN 154m

Source: the Company.

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.)

3.13. Loans advanced and sureties and guarantees granted; sureties and guarantees received

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). The loans were granted to KRUK ROMANIA S.R.L 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 and 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 Romania S.r.l of Bucharest

The loans were granted to KRUK Romania S.r.l of Bucharest to finance its operating and investing activities. The loans 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, outstanding liabilities of KRUK ROMANIA S.R.L 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.

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

In 2016, KRUK S.A. advanced an aggregate of 6,142 NOVUM cash loans, with a net value of PLN 20.1m. As part of the Novum project, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 months. The NOVUM service is addressed to the KRUK Group's debtors who have repaid their debts

or are repaying their debts in a timely manner, but are excluded from the banking market, as well as to clients on the market at large. In 2016, KRUK S.A.'s revenue from the NOVUM project was PLN 12.4m.

Loans received by the Company from subsidiaries

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

Loans from Novum Finance Sp. z o.o. of Wrocław were used to repay some of loans from other subsidiaries. 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.

Loan from RoCapital I.F.N. of Romania

In 2016, the Company received from RoCapital I.F.N of Romania 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.

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.

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.

3.14. Development directions and prospects

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

We strive to become a global leader on the debt management market in terms of the company's market value.

Key objective for 2015–2019:




We want to see EPS rise by at least 15% annually and maintain ROE at or above 20%.

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.

Figure 3.2 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 /SMEs	●	●	○	○	○	◐	○		
Credit management		●	●	●	●	◐	●	◐		
Consumer loans		●	◐							
Credit information		●	○	○	○	○	○	○		

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

Source: the Company.

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 productivity and methods of data analysis and research,
- 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.

3.14.1. Strategy implementation progress

Presented below is the 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 3rd among public debt management companies in terms of net profit.

Presented below is the 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;

	<ul style="list-style-type: none"> • 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.

3.15. Capital expenditure programme

3.15.1. Capital expenditure

In 2016, the main items of capital expenditure made by the Company included PLN 8.8m spent on new vehicles (including under finance lease agreements) and PLN 2.7m spent on plant and equipment. The Company also made material investments of PLN 6.5m in licences and software, including PLN 4.8m invested in proprietary software.

3.15.2. Investments within the Group

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

Table 6. Increase and reduction of the share capitals of the Group's subsidiaries

Company	Action	Amount
Secapital S.à 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 Romania s.r.l.	Cancelling liabilities under loans (including interest)	PLN 2.2m*
KRUK Deutschland GmbH	Additional contributions to statutory reserve funds	PLN 38m**
KRUK España 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.

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 regarding Novum Finance Sp. z o.o. were opened. The proceedings were discontinued on July 29th 2016 by virtue of a resolution to revoke the pending liquidation of that 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.

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 the previous financial year.

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 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 or third-party rights, with a total par value of PLN 39,005,000, was transferred to KRUK S.A.'s subsidiary Secapital S.a r.l. 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.

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.

3.15.3. Assessment of the feasibility of investment plans

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

3.16. Risk factors – internal factors

3.16.1. Material risk factors

Risk of failure to achieve the Company's strategic objectives

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

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

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

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

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

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

3.16.1.2. *Operational risk related to the Company's business*

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

3.16.1.3. *Credit risk*

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

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

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

3.16.1.4. *Debt risk*

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

3.16.1.5. *Risk of losing experienced management staff*

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

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

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

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

3.16.1.6. *Risk of IT systems' failure*

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

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

3.16.1.7. *Risk connected with related-party transactions*

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

3.16.1.8. *Risk of negative PR in relation to the Company*

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

The 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 that the Company deals with there are people who suffer from depression or undergo psychiatric treatment. Some of the debtors also express the intention to commit suicide. The Company estimates that every month it deals on average with more than a dozen suicide threats, but is not aware of any suicide threats having been actually carried out. None of the suicide threats are disregarded. They all are carefully analysed and reported to the police in line with the applicable procedures. In the case of suicide threats, notwithstanding the highest service standards and professional behaviour of the Company's employees, a risk exists that the debtor will carry the threat into effect. If information on such an event receives wide publicity, it could generate negative PR for the Company.

3.16.2. Risk management system

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

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

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

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

3.16.2.1. *Managing the risk of error in estimating the fair value of acquired debt portfolios*

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

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

Having acquired by the end of 2016 as many as 555 debt portfolios and having carried out around 3,000 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the fair values of such portfolios. The information base it has compiled allows the Company to limit the risk of incorrect estimate of the fair value of the debt portfolios it has purchased.

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

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

3.16.2.3. *Managing credit risk*

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

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

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

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

3.16.2.4. *Managing liquidity risk*

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

Liquidity risk management tools used at the Company and the Group include:

- Regular monitoring of cash needs and 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.

3.16.2.5. *Managing the risk of loss of experienced management staff*

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

3.16.2.6. *Managing the risk of IT systems' failure*

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

3.16.2.7. Managing the risk connected with related-party transactions

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

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

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

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

4. OPERATIONAL AND FINANCIAL REVIEW

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

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

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

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

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

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

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

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

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

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

4.2. General information about current and expected financial position

There are no material risks to the Company's and the Group's current and expected financial position. KRUK S.A. is the parent of the KRUK Group and its financial and operating performance should be evaluated in the context of performance generated by the entire KRUK Group, after eliminating the transactions between the individual Group members which – from the Group's point of view – are neutral for its performance. Net profit generated by the Company on a separate basis in 2016 was PLN

4m. A strong contribution to this figure came from finance income, including dividends paid to KRUK S.A. by other KRUK Group companies (neutral to the performance of the Group as a whole).

4.3. Revenue by product

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

In 2016, the Company's revenue was PLN 132m, which means an improvement of 14% year on year, fuelled primarily by a 47% increase in revenue from credit management services. At the same time, revenue from purchased debt portfolios fell by 11%, while other revenue went up 4%.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit. When data is presented divided into geographical segment, revenue is based on geographical offices location.

Table 7. Revenue by product and market
For the year ended December 31st 2016

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

Source: the Company.

For the year ended December 31st 2015

	Poland	Romania	Other foreign markets	TOTAL
Revenue	73,188	40,204	2,346	115,739
Purchased debt portfolios	15,624	39,092	1,962	56,678
Collection services	45,246	-	-	45,246
Other products	12,318	1,112	384	13,815
Direct and indirect costs				(94,705)
Purchased debt portfolios	-	-	-	(85,075)
Collection services	-	-	-	(8,370)
Other products	-	-	-	(1,260)
Gross profit				(94,589)
Purchased debt portfolios	-	-	-	(85,018)
Collection services	-	-	-	(8,325)
Other products	-	-	-	(1,246)
Administrative expenses	-	-	-	(67,066)
Depreciation and amortisation expense	-	-	-	(6,539)
Other income	-	-	-	(5,574)
Other expenses (unallocated)	-	-	-	-
Finance income/costs	-	-	-	94,122
Profit before tax	-	-	-	40,519
Income tax	-	-	-	(4,676)
Net profit	-	-	-	35,843
Carrying amount of debt portfolios	13,395	30,390	3,148	46,934

Source: the Company.

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

Table 8. Structure of assets and liabilities in the statement of financial position

As at December 31st 2016

PLN '000

	Note	Dec 31 2016	Dec 31 2015
Assets			
Cash and cash equivalents	21	162,936	5,206
Trade receivables from related entities	20	38,883	10,562
Trade receivables from other entities	20	3,301	3,029
Investments	17	162,976	94,725
Other receivables	20	15,292	15,107
Inventories	19	188	232
Property, plant and equipment	14	21,019	14,027
Intangible assets	15	13,261	10,735
Deferred tax asset	18	-	2,863
Investments in subsidiaries	16	1,940,043	1,283,073
Other assets		4,402	2,118
Total assets		2,362,301	1,441,677
Equity and liabilities			
Liabilities			
Deferred tax liability	18	4,018	-
Hedge derivatives	28	-	589
Trade and other payables	27	39,152	26,095
Employee benefit obligations	25	19,742	22,363
Current tax liability		3,514	3,178
Liabilities under borrowings and other debt instruments	24	1,594,626	889,916
Total liabilities		1,661,051	942,141
Equity			
Share capital	22	18,744	17,398
Share premium		288,326	64,382
Other capital reserves		76,659	68,957
Retained earnings		317,522	348,800
Total equity		701,251	499,537
Total equity and liabilities		2,362,301	1,441,677

Source: the Company

In value terms, the highest growth was reported in investments in subsidiaries. Equity grew following the issue of Series G shares in December 2016, with 1,000,000 shares acquired at the subscription price of PLN 215 per share. The increase in liabilities is attributable to the issuance of bonds in 2016.

4.5. Cash flows

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

- financing debt purchases with internally generated funds, bank borrowings, bonds and other debt instruments;

- leasing property, plant and equipment and intangible assets or financing them with internally generated funds;
- financing other operations with internally generated funds.

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

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

Table 9. Purchased debt portfolios

Value of purchased debt portfolios as at Jan 1 2016	46,933
Cash recoveries	(56,744)
Revenue from debt purchase (interest and revaluation)	53 099
Value of purchased debt portfolios as at Dec 31 2016	43,288

Source: the Company.

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

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

The Company did not have any material off-balance sheet items in 2016.

4.7. Financial ratios

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

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

KRUK S.A. did not publish any financial forecasts for 2016.

4.9. Financial instruments

4.9.1. Use of financial instruments

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

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

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

Derivatives

In 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 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.

Credit risk

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

Liquidity risk

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

Market risk

Market risk is related to changes in such market factors as foreign exchange rates 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.

4.9.2. Objectives and methods of financial risk management

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

Table 12.10 Assets relating to credit risk

PLN '000

	<i>Note</i>	Dec 31 2016	Dec 31 2015
Financial instruments at fair value through profit or loss	17	41,211	44,431
Financial assets measured at amortised cost	17	2,077	2,502
Loans	17	112,908	47,357
Receivables	20	56,963	28,698
		213,158	123,423

Source: the Company.

Credit risk

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

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

Liquidity risk

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

Liquidity risk management tools used at the Company and the Group include:

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

Market risk

The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits. 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.

4.9.3. Assessment of financial resources management

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

5. CORPORATE GOVERNANCE

5.1 Statement of compliance with corporate governance standards

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

The text of the statement, specifying the extent to which the Company intends to comply with the standards, is available on KRUK S.A.'s website, at: <http://pl.kruk.eu/pl/dla-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 13 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 13.11 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 June 23rd 2015

Source: the Company.

Table 14 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at December 31st 2016

Table 14.12 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 15 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at February 27th 2017.

Table 15.13 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 Extraordinary 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 the sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.
- On April 4th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A., 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, July 26th and September 30th 2016, the Company received notifications from Piotr Krupa, President of the KRUK S.A. Management Board and a major shareholder in the Company, concerning sale of KRUK S.A. shares in ordinary session trades executed on the Warsaw Stock Exchange on July 13th 2016 (32,000 shares at the average price of PLN 209.00), 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, President of the Management Board of KRUK S.A., 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 Mr Piotr Krupa, President of the Management Board of KRUK S.A., to the effect that on December 22nd 2016 Mr Krupa had acquired 50,000 shares in KRUK S.A., for an 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. Incentive Scheme

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

Table 16. 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.

5.4. Dividend policy

5.4.1. Historical data on dividend payments

Information on dividend payments in the last five financial years is presented in the table below.

Table 17. 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.

For the calendar of events related to dividend payment in 2016, see the table below.

Table 18. 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.

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 95.6m and PLN 1.2m as profit distributions from SeCapital S.à r.l., a Luxembourg-based subsidiary InvestCapital Malta Ltd., a subsidiary, and Kancelaria Prawna Raven Krupa&Stańko sp. k., respectively. Kancelaria Prawna Raven Krupa&Stańko Sp. k. also paid PLN 1,7m to its general partners as a profit distribution in 2016.

5.4.2. Dividend policy

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

5.5. Governing bodies

5.5.1. Management Board

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

The Company's management body is the Management Board.

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 19.

Table 19. 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.

5.5.1.2. Powers of the Management Board

The Management Board, led by the President, manages the Company's business and assets, and represents the Company before courts, government authorities and third parties. Pursuant to Par. 8.1 of the Articles of Association, the Management Board makes decisions 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.

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

Table 20 presents Company shares or rights to Company shares held by Management Board members as at January 1st 2016.

Table 20. 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.

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 (a Management Board member) 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 Ms 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 on Trading in Financial Instruments, to the effect that 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.

Table 14. 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 Kulon	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.

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

Table 22. 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 Kulon	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.

5.5.1.4. 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 Ms Iwona Słomska, performed their duties based on managerial contracts executed by the Company with Mr Piotr Krupa, Ms Agnieszka Kułton and Ms Urszula Okarma on March 19th 2012, and with Mr Michał Zasępa on September 1st 2013, while Ms 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 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.

The tables below 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 23. Remuneration of the Management Board members in 2016

Name and surname	Remuneration from the Company in 2016	Additional benefits* from the Company	Remuneration from the subsidiaries in 2016	Additional benefits* from the subsidiaries in 2016
	(PLN '000)		(PLN '000)	
Piotr Krupa	1,057	6.56	-	-
Agnieszka Kulon	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 24. 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)		(PLN '000)	
Piotr Krupa	1,387	6.30	-	-
Agnieszka Kulon	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.

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 4,438.0 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.

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.

5.5.2. Supervisory Board

5.5.2.1. 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 Mr Piotr Krupa holds shares in the Company representing 8% or more of the total vote at its General Meeting, he has the right to appoint and remove:

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

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

From January 1st 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 25.

Table 15. 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.

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, Mr 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.

5.5.2.2. *Operation of the Supervisory Board*

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

- reviewing financial statements and the Directors' Report on the Company's operations for the previous financial year, in terms of their consistency with the accounting books, relevant documents and with the facts, and assessing the Management Board's recommendations concerning the distribution of profit or coverage of loss;
- submission to the General Meeting of a written annual report on results of the review referred to in item above;
- appointing and removing from office the President of the Management Board;
- appointing and removing from office members of the Management Board (including Vice-Presidents);
- suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- determining the amount of remuneration of the President of the Management Board;
- approving the Company's annual financial plans (the budget) and strategic economic plans;
- granting consent for the Company to contract loans or issue bonds, other than loans or bonds provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, with the exception of loans to be contracted with companies of the KRUK Group;
- granting consent to creating security, providing surety or creating other encumbrances over the Company's assets other than provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, unless only entities of the KRUK Group are parties to the transaction. Consent of the Supervisory Board is not required to create security or provide surety in respect of loans and bonds which have been provided for in the budget or approved by the Supervisory Board;
- granting consent for the Company to contract liabilities under a single transaction or a series of related transactions with a total value in excess of the equivalent of 5% of the Company's equity in a given financial year, other than liabilities provided for in the budget or arising in the Company's ordinary course of business;
- granting consent to the Company acquiring or subscribing for shares in other commercial companies or joining other businesses which are not KRUK Group entities;
- granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen percent) of the Company's net book value as determined on the basis of the last audited financial statements, other than any acquisition or disposal provided for in the budget, and except for any acquisition or disposal of assets from or to entities of the KRUK Group;
- granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks, unless only entities of the KRUK Group are parties to the transaction;

- granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other than provided for in the budget would exceed PLN 500,000 (five hundred thousand złoty);
- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's full-year financial statements, referred to in Article 395 of the Polish Commercial Companies Code, in accordance with the Polish and international accounting standards;
- granting consent to the execution of or amendment to agreements concluded between the Company or its subsidiary and Management or Supervisory Board members;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1m (one million złoty) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary, to the extent such disposals or commitments are outside the scope of the Company's business, in an amount exceeding PLN 200,000 (two hundred thousand złoty) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to the purchase or disposal of property, perpetual usufruct rights or interests in property by the Company, excluding property purchased or sold as part of debt management.

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

Supervisory Board resolutions are passed with an absolute majority of voting rights of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. A resolution of the Supervisory Board is valid when all Supervisory Board members have been invited to the meeting and at least half of them attend the meeting.

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

5.5.2.3. 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 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 Tomasz 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 Tomasz 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 Tomasz 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 Tomasz 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, Tomasz 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.

5.5.2.4. *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 26 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.

Table 26. Remuneration of the Supervisory Board members

Surname, first name	Remuneration from the Company for 2015	Remuneration from the Company for 2016
	(PLN '000)	(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*

Source: the Company.

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

The total remuneration received from the Company by the Supervisory Board members named above for 2016 amounted to PLN 792.8 thousand. The amount includes the remuneration payable in the euro, translated into the zloty at the exchange rate quoted by the NBP for the day preceding the payment day.

In 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.

5.5.2.5. 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.

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 Stępnia – Member of the Audit Committee.

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

Apart from statutory duties, in 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 Stępnia – 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, composed of:

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

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 Stępiak – 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.

5.5.3. 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.

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

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

The Company's Articles of Association do not include any provisions relating to their amendment which would stipulate in this respect any other rules than those defined in the Commercial Companies Code.

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

The 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.

6. OTHER INFORMATION

6.1. Court, administration and arbitration proceedings

General information

As part of the ordinary course of its business, the Company is a party to court and enforcement proceedings concerning its operations. In 2016, the Company was a plaintiff or participant in 297 court proceedings (including bankruptcy cases), where the total value of claims was approximately PLN 2,015,140.07. Furthermore, in 2016, 18,097 enforcement proceedings were pending upon motions filed by the Company, with a total value of claims being enforced of approximately PLN 140,334,369. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company.

In 2016, the Company was a defendant in 7 court proceedings, where the total value of claims was approximately PLN 175,726.83. They were chiefly proceedings against enforcement instigated in connection with the Company's operating activities involving debt recovery. The Company believes the claims to be without merit and expects them to be dismissed. There are no proceedings pending against the Company where the value of claims would exceed 10% of the Company's equity.

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

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

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

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

Among proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 74,000 – was an action for payment brought by Edyta Królak against KRUK S.A. The Company expects the claim to be dismissed in its entirety. Worth mentioning is also a case brought by Aleksander Rajewski against KRUK S.A. for payment of PLN 46,200 for infringement of personal rights and payment of compensation.

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

Among court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 313,101 – was the bankruptcy case concerning KRUK S.A.'s claims against Kazimiera Ciopala. Moreover, bankruptcy proceedings concerning KRUK S.A.'s claims are pending with respect to Piotr Ciopala – the value of the claim is PLN 222,856. Both cases involve consumer bankruptcies, the estates are being liquidated, and the repayment schedule has been set.

6.2. 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, reviewing the half-year financial statements, and auditing the full-year consolidated financial statements was set at PLN 999 thousand (2015: PLN 481 thousand); and the fee for other assurance services at PLN 25 thousand (2014: PLN 0 thousand). The separate and consolidated financial statements for 2015 were audited by Ernst and Young Spółka z ograniczoną odpowiedzialnością sp. k.

6.3. Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to support the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2016, the strategy of building the platform supporting operating processes remained unchanged – the Company's internal resources continued the development of the platform, which resulted in the system's improved flexibility and scalability.

6.4. Environmental issues

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

6.5. Performance of Company shares on the Warsaw Stock Exchange

6.5.1. Share price

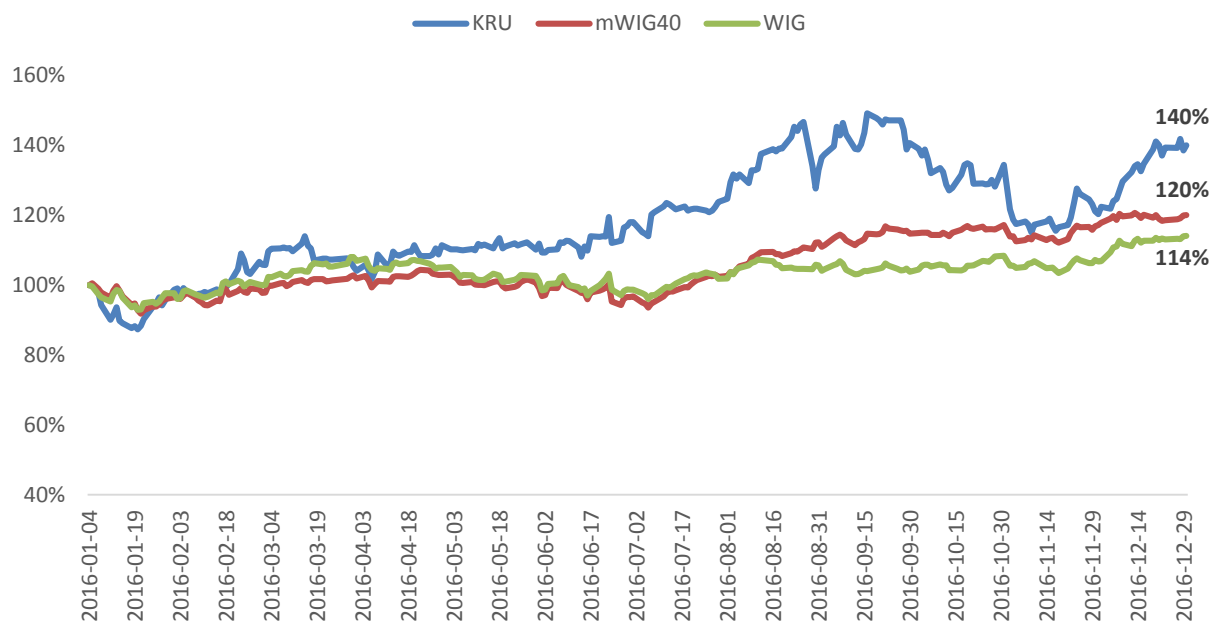
In 2016, the market price of KRUK shares increased 38%, outperforming the broad market. Over that period, the WIG index went up by 11%, and the mWIG40 index of mid-cap companies (including KRUK) – by 18%. The strengthening of the KRUK stock price was supported by favourable prospects for the debt collection 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.

Table 27. 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.

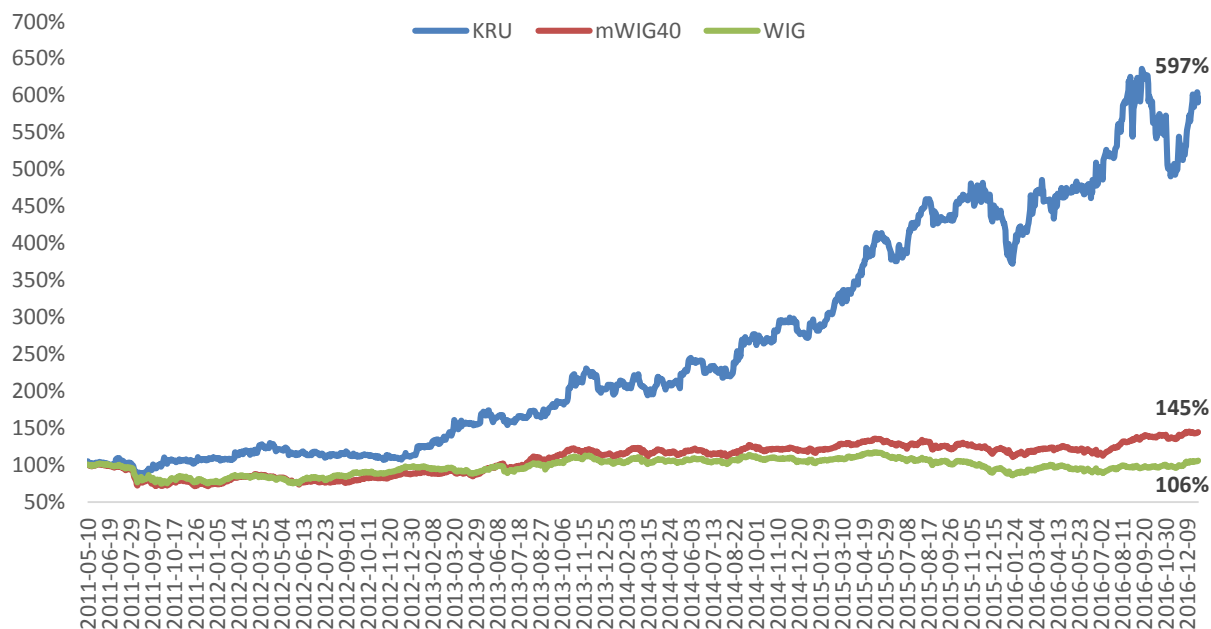
Chart 6.1 KRUK S.A. stock price against WIG and mWIG40 in 2016 (beginning of the year = 100%)



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

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 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%.

Chart 7.2 Performance of KRUK stock against WIG and mWIG40 from the Company's IPO at the WSE in May 2011 until the end of 2016

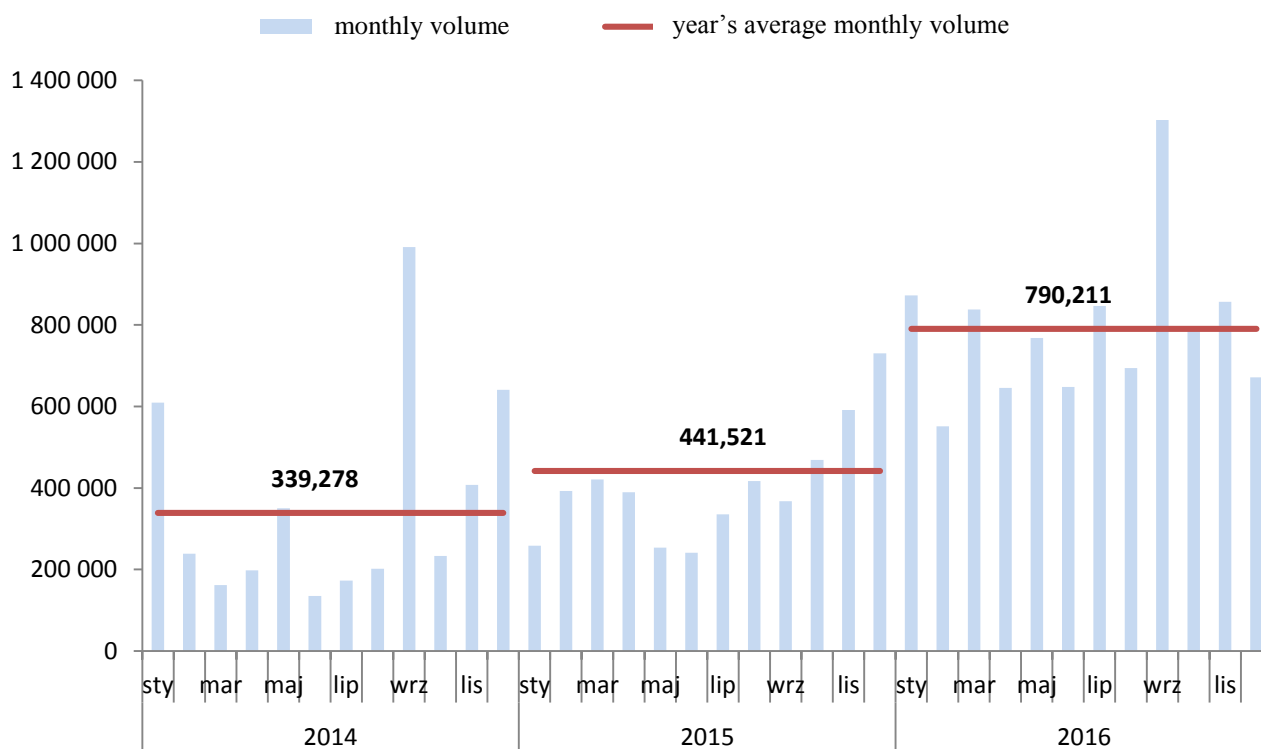


Source: in-house analysis, based on stooq.pl.

6.5.2. 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 (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.

Chart 8.3 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

6.6. 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,
- 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 28.

Table 28. Key Investor Relations activities in 2016

	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.

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 below lists analysts issuing recommendations on Company stock.

Table 28. 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.

Including updates, the Company received eight recommendations from analysts in 2016, of which four were BUY and three were HOLD recommendations.

Table 29. Number of recommendations received in 2016

Number of recommendations in 2016:		
	8	
BUY*	HOLD	SELL
4	3	1

Source: in-house analysis.

* or ACCUMULATE

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.

6.7. 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. 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.

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.

6.8. Glossary of terms

Auditor	Ernst & Young Audyt Polska Sp. z o.o. sp. k., Rondo ONZ 1, 00-124 Warsaw. Poland, Reg. No. 130 – the Company’s auditor
CAGR	Cumulative Average Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	EBITDA less revenue from purchased portfolios plus recoveries from purchased portfolios
EPS	Earnings per share
EUR	Euro
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
The Group, the Kruk Group	The Company as the Parent along with its subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
ItaCapital	ItaCapital S.r.l of Milan, Italy
Second Public Bond Issue Programme	The Second Public Bond Issue Programme carried out under the prospectus approved by the Polish Financial Supervision Authority on December 22nd 2014
Kancelaria Prawna RAVEN	Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
Kruk Česká a Slovenská republika	Kruk Česká a Slovenská republika s.r.o. of Hradec Králové
Kruk España	Kruk España S.L. of Madrid, Spain
Kruk Italia	Kruk Italia S.r.l of Milan, Italy
Kruk Romania	Kruk Romania s.r.l of Bucharest, Romania
Kruk TFI	Kruk Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław

ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards endorsed by the European Union, including International Accounting Standards, International Financial Reporting Standards and related Interpretations endorsed by the European Union
NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, 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 BY MANAGEMENT BOARD MEMBERS

The Directors' Report on the operations of KRUK S.A. 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 Kułton

Member of the Management Board



Iwona Słomska

Member of the Management Board



Michał Zasępa

Member of the Management Board



Wrocław, February 27th 2017



KRIUK Group
www.kruk.eu, ir@kruksa.pl

Konstantin Korovin *A Quay in the Crimea*