



DIRECTOR'S REPORT
ON THE OPERATIONS OF KRUK S.A.

IN 2018



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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.

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For the organisational chart of the KRUK Group, see Section 2.1.1. Description of the Group’s structure [G4-3][G4-5][G4-7]

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 2018.

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), separate results of the Company 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. [G4-1]

1.3 Financial highlights for 2018

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.

In December 2018, the number of FTEs* in the Company was 1,369.06 (2017: 1,358.64).

**FTEs – the number reflected in the cost of salaries, calculated based on full time job equivalents rather than the actual number of employees. The figures are based on employment contracts, management contracts, cooperation agreements, and civil law contracts. Inactive employees (i.e. persons on long-term, such as maternity, leaves) are not included.*

Number of employees by type of employment and gender

Type of employment	Women	Men	TOTAL
Internships	2	0	2
Contract of employment	906	615	1,521
Cooperation agreement	0	1	1
Management contract	3	2	5
Self-employment	3	0	3
TOTAL	914	618	1,532

Number of employees employed for an indefinite period by type of employment and gender

Type of employment	Women	Men	TOTAL
Contract of employment	673	484	1,157
Cooperation agreement	0	1	1
TOTAL	673	485	1,158

Number of employees by type of position (managerial and other) and gender

Type of employment	Women	Men	TOTAL
Managers, directors, President of the Management Board	115	86	201
Other	799	532	1,331
TOTAL	914	618	1,532

[G4-10][G4-38]

The table below presents selected data and financial highlights of the Company for 2018, with comparative data for 2017.

Table 1. Financial performance in 2017–2018

	Period ended Dec 31		
	2018	2017	Change
	(PLN '000, unless stated otherwise)		
Revenue	120,175	142,722	-16%
EBITDA	-82,873	-53,338	55%
Operating profit/loss (EBIT)	-95,946	-65,022	48%
Net finance income	40,827	125,751	-68%
Net profit for period	-57,818	29,514	
Cash flows from operating activities	-221,053	639,962	
Cash flows from investing activities	449,321	-879,774	
Cash flows from financing activities	-236,034	93,794	
Total net cash flows	-7,765	-146,019	-95%
Total assets	2,400,199	3,143,654	-24%
Equity	569,889	714,625	-20%

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 2018, 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 2018.

2.2.1. Securitisation funds

On October 12th 2017, KRUK S.A. entered into an agreement to manage the securitised debt of Bison NS FIZ. 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, *inter alia*, 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, as well as collection and administration of the fund’s securitised receivables. As of April 1st 2015, KRUK S.A. manages the securitised debt of PROKURA NS FIZ. As regards the performance of the above agreements, the Company is subject to the supervision of the Polish Financial Supervision Authority.

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

Given the large-scale processing of the personal data of individuals by the Group companies in the course of their day-to-day operations, personal data protection laws, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (hereinafter: “GDPR”), are of particular importance to the Group’s operations. 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, data subjects should be provided with a range of information, including:

- the identity and contact details of the controller,
- the contact details of the Data Protection Officer,
- the purpose of and legal basis for the processing of personal data,
- the recipients or categories of recipients of personal data,
- an intention to transfer personal data to a third country,
- the period for which personal data will be stored, or if that is not possible, the criteria used to determine that period,
- the existence of the right to request access to, rectification or erasure of personal data or restriction of processing or the right to object to processing, as well as the right to data portability and the right to withdraw consent,
- the right to lodge a complaint with a supervisory authority concerning the processing of data,
- whether the provision of personal data is a statutory or a contractual requirement, or a requirement necessary to enter into a contract, as well as whether the data subject is obliged to provide personal data and of the possible consequences of failure to provide such data,
- the existence of automated decision-making, including profiling, as well as information about the logic involved, as well as the significance and the envisaged consequences of such processing for the data subject,
- if personal data is further processed for a purpose other than that for which the personal data was collected, information on that other purpose.

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

In 2018, the most important changes in the laws and regulations applicable to the Company’s operations were related primarily to:

- a. Personal data protection – particularly the entry into force (on May 25th 2018) of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (hereinafter: “GDPR”). The GDPR introduces a number of new principles regarding the processing of personal data, such as:
 - direct responsibility of the entity processing personal data,
 - controllers’ obligation to notify the competent supervisory authority, within 72 hours of detection, of a personal data breach which might result in a risk to the rights and freedoms of the persons whose data has been breached,
 - new and extended rights of data subjects, such as the ‘right to be forgotten’, the right to request data portability, extended right to access and consult the data,
 - restrictions on profiling,
 - new, extended regulations concerning the provision of information,
 - data inventory requirements and documentation requirements,
 - the requirement to carry out data protection impact assessment.

- b. Changes in the statute of limitations period – under the Act Amending the Civil Code and Certain Other Acts, dated April 13th 2018. In the first place, the amendment shortened the basic statute of limitations period from ten to six years. It also changed the calculation of the final limitation period, which will always fall on the last day of a calendar year, unless the limitation period is less than two years.

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.

2.2.6. Other authorities materially involved in oversight of 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,
- The President of the Personal Data Protection Office – with respect to processing and protection of personal data.

3 OVERVIEW OF THE COMPANY'S BUSINESS

3.1 The 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.

3.2 Organisational structure

The structure of the KRUK Group as at December 31st 2018 and KRUK S.A.'s ownership interests in the subsidiaries are presented below.

Figure 1. Structure of the KRUK Group



Source: the Company.

As at December 31st 2018, the Group comprised KRUK S.A. (the parent) and 23 subsidiaries. The subsidiaries are presented below.

Table 2. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna Raven P. Krupa 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	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.
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 Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
InvestCapital 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
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l.	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy and other European countries
ItaCapital S.r.l.	Milan	Investing in debt or debt-backed assets
KRUK Espana S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Fund employing 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
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
Zielona Perła Sp. z o.o.	Wrocław	The company's principal business activity consists in buying and selling of own real estate and renting and operating of own or leased real estate.
AgeCredit S.r.l.	Cesena	A credit management company operating in Italy.
Bison NS FIZ (closed-end investment fund)	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.

Source: KRUK S.A.

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

By the date of authorisation of this report, the composition of the KRUK Group and the above information on the Group companies had not changed. [G4-4][G4-6][G4-8][G4-9][G4-17]

3.3 Changes in the structure of the KRUK Group

Below is presented a description of changes in the Group's structure that occurred in 2018 and by the date of this report.

On January 8th 2018, the articles of association of Zielona Perła sp. z o.o., with a share capital of PLN 4.6m, were executed. The company is wholly owned by KRUK S.A. and has its registered address at ul. Wołowska 8, Wrocław, Poland. Its principal business activity is buying and selling of own real estate and renting and operating of own or leased real estate.

On April 16th 2018, KRUK S.A. concluded an agreement with a shareholder in AgeCredit S.r.l. of Cesena, Italy,

to acquire a 51% interest in the company. The agreement envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, KRUK S.A. acquired 100% of shares in AgeCredit S.r.l.

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

As at December 31st 2018 and the issue date of this report, the Company's share capital totalled PLN 18,886,861 and was divided into 18,886,861 shares with a par value of PLN 1 per share.

Table 3. The Company's share capital as at December 31st 2018 and the issue date 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 F	142,645
Series G	1,000,000
TOTAL	18,886,861

Source: the Company.

3.5 Share capital

3.5.1. Share capital structure

As at December 31st 2018 and the issue date of this report, the Company's share capital totalled PLN 18,886,861 and was divided into 18,886,861 shares with a par value of PLN 1 per share.

Table 4. The Company's share capital as at December 31st 2018 and the issue date 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 F	142,645
Series G	1,000,000
TOTAL	18,886,861

Source: the Company.

3.6 Changes in the share capital and conditional share capital

The table below presents changes in the share capital of KRUK S.A. in 2018

Table 5. Changes in the share capital of KRUK S.A. in 2018

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
May 23rd 2018	63,691	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18,871,591	Issue as part of a conditional share capital increase
November 6th 2018	15,270	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18,886,861	Issue as part of a conditional share capital increase,

Source: the Company.

3.7 Products and services offered by the Company

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 nature of the client's cases and the client's needs. 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 debtor, and quality of the security. Then, depending on the findings, steps are undertaken to restore regular repayments, arrange credit restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate). In the course of collection of mortgage-backed debts, 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 with the assistance of ERIF Biuro Informacji Gospodarczej

The credit reference agency ERIF Biuro Informacji Gospodarczej provides effective operational support for the activities of KRUK S.A. Amicable collection combined with the possible sanction of entering the debtor's details in ERIF is a hybrid service, unique on the Polish market. [G4-4]

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

Execution of debt assignment agreement with BGŻ BNP Paribas S.A. in Poland

On April 17th 2018, PROKURA NS FIZ, the Company's subsidiary, (the "Buyer") and BGŻ BNP Paribas S.A. concluded an agreement (the "Agreement", the "Bank") whereby Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debt and secured corporate debt with an aggregate nominal value of PLN 384m.

Execution of debt assignment agreements in Poland

On April 16th and April 23rd 2018, agreements were concluded between the Company's subsidiary PROKURA NS FIZ (the "Buyer") and one of Poland's largest banks (the "Agreements", the "Bank"). By executing the Agreements, PROKURA NS FIZ completed the process of purchasing from the Bank a portfolio of unsecured retail debt with a nominal value of approximately PLN 147m and a portfolio of secured corporate debt with a value of approximately PLN 187m.

Execution of debt assignment agreement with a member of the Carrefour Group in Spain

On July 31st 2018, a firm agreement was signed between the Company's subsidiary InvestCapital Ltd. of Malta ("InvestCapital", the "Buyer") and a member of the Carrefour Group of Spain – Servicios Financieros Carefour, E.F.C., S.A. headquartered in Madrid (the "Agreement", the "Seller"). The Agreement provided for the purchase of a portfolio of unsecured retail debt with a total nominal value of approximately EUR 248m (PLN 1.06bn as translated at the mid-exchange rate quoted by the NBP for July 31st 2018).

Execution of debt assignment agreement in Italy

A firm agreement (the "Agreement") was signed between the Company's subsidiary ItaCapital S.r.l. of Milan ("ItaCapital", the "Buyer"), KRUK S.A. of Wrocław, and Findomestic Banca S.p.A. of Florence (the "Seller"). The Agreement provided for the purchase of unsecured consumer loan debt with a total nominal value of approximately EUR 300m (PLN 1.3bn as translated at the mid-exchange rate quoted by the NBP for September 14th 2018).

Execution of debt assignment agreements in Poland

On September 25th 2018, agreements (“Agreements”) were concluded between the Company’s subsidiary PROKURA NS FIZ (the “Buyer”) and one of Poland’s largest banks (the “Bank”). By executing the Agreements, PROKURA NS FIZ completed the process of purchasing from the Bank portfolios of unsecured retail debt with a nominal value of approximately PLN 274m and a portfolio of unsecured debt of small and medium-sized enterprises with a value of approximately PLN 214m.

Execution of debt assignment agreement in Spain

On December 14th 2018, an agreement on assignment of receivables (the “Agreement”) was concluded between the Company’s subsidiary InvestCapital Ltd. of Malta, Bankia S.A. of Valencia, and BFA Tenedora de Acciones S.A.U. of Madrid. The Agreement provided for the purchase of unsecured consumer loan debt and receivables from SMEs with a total nominal value of approximately EUR 246m (PLN 1.06bn as translated at the mid-exchange rate quoted by the NBP for December 14th 2018).

3.9 Non-recurring factors and events

On January 14th 2019 The Management Board of KRUK S.A. passed a resolution on the issue of Series AG2 bonds and determination of their final terms and conditions. The issue will comprise up to 250.000 unsecured bearer Bonds in book-entry form. The Bonds will be offered at the issue price equal to their nominal value of PLN 100 per bond, and that their total nominal value will not exceed PLN 25m. The Bonds will bear interest at a variable rate equal to 3M WIBOR (the rate charged for three-month borrowings denominated in PLN on the Polish interbank market) plus a fixed margin of 3.50 percentage points. The Company will redeem the Bonds on 6th February 2024

3.10 Material events after December 31st 2018

On January 14th 2019 The Management Board of KRUK S.A. passed a resolution on the issue of Series AG2 bonds and determination of their final terms and conditions. The issue will comprise up to 250.000 unsecured bearer Bonds in book-entry form. The Bonds will be offered at the issue price equal to their nominal value of PLN 100 per bond, and that their total nominal value will not exceed PLN 25m. The Bonds will bear interest at a variable rate equal to 3M WIBOR (the rate charged for three-month borrowings denominated in PLN on the Polish interbank market) plus a fixed margin of 3.50 percentage points. The Company will redeem the Bonds on 6th February 2024.

3.11 Executed agreements

3.11.1. Material agreements

In 2018, the Company did not enter into any agreements that may be considered material. Agreements concluded by other Group companies are presented in detail in the Directors’ Report on the operations of the KRUK Group.

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 and credit facility agreements

In 2018, the KRUK Group entered into new credit facility agreements and executed annexes to some of its existing credit facility agreements, as announced in current reports in accordance with applicable disclosure requirements. The table below shows all credit facilities of the Kruk Group along with related collateral and other security as at December 31st 2018.

Bank	Borrower	Agreement date	Final repayment date	Facility type	Limit as at the agreement date, as amended	Limit as at Dec 31 2018	Collateral and other security	Value of collateral as at Dec 31 2018
Santander Bank Polska S.A.	KRUK S.A.	April 2011	Credit facility (PLN 65m): October 2023 Additional credit facility (PLN 55m): October 2021	Revolving credit facility	120	120	<ul style="list-style-type: none"> - registered pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - surety under civil law issued by KRUK S.A. - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement - notarised declaration of KRUK S.A. on submission to enforcement 	274.4
Santander Bank Polska S.A.	PROKURA NS FIZ	February 2013	October 2023	Revolving credit facility	20	20		
BGŻ BNP Paribas S.A.	KRUK S.A.	October 2014	December 2020	Revolving credit facility	120	68	<ul style="list-style-type: none"> - registered pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement 	167.2
Getin Noble Bank S.A.	KRUK S.A.	March 2014	May 2024	Revolving credit facility	260	260	<ul style="list-style-type: none"> - pledge over KRUK S.A.'s ownership interest in a specific compartment of SeCapital Sarl - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement 	435.2
mBank S.A.	PROKURA NSFIZ	July 2015	July 2023	Revolving credit facility	140	140	<ul style="list-style-type: none"> - registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account 	142.6
PKO BP S.A.	PROKURA NSFIZ	June 2016	December 2020	Non-revolving credit facility	35	16	<ul style="list-style-type: none"> - registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement - notarised declaration of KRUK S.A. on submission to enforcement 	47.5
PKO BP S.A.	PROKURA NS FIZ	December 2016	June 2021	Non-revolving credit facility	27	16	<ul style="list-style-type: none"> - registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement 	13.2

							- notarised declaration of KRUK S.A. on submission to enforcement	
Bank Pocztowy S.A.	KRUK S.A.	December 2018	December 2023	Revolving credit facility	50	50	- financial pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement	78.2
ING Bank Śląski S.A.	PROKURA NS FIZ	December 2018	December 2023	Revolving credit facility	200	200	- registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial and registered pledge over PROKURA NS FIZ's selected account - financial pledge over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement - notarised declaration of PROKURA NS FIZ on submission to enforcement	--
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., mBank S.A.	Invest Capital LTD, Kruk Romani a S.R.L.	July 2017	July 2023	revolving credit facility, syndicated credit facility	1,075	1,075	- pledge over borrowers' selected portfolios - pledge over selected bonds issued by ItaCapital S.r.l. - pledge over borrowers' selected accounts - surety under civil law issued by KRUK S.A. - surety under civil law issued by KRUK Romania S.r.l. - notarised declaration of KRUK S.A. on submission to enforcement	1,152
Total					1,707	1,624		2,310.3

On December 20th 2018, Prokura NS FIZ, the Company and ING Bank Śląski S.A. signed a revolving credit facility agreement referred to in this Section. By way of security for Prokura NS FIZ's liabilities under the agreement:

- After the reporting date, on January 4th 2019, PROKURA NS FIZ and ING Bank Śląski S.A. executed an agreement on a registered and financial pledge over receivables under a bank account agreement. On January 17th 2019, an application was filed with the court to enter the pledge in the pledge register. As at February 28th 2019, the Company did not receive the court's decision on registration of the pledge. The registered pledge will secure claims up to a maximum amount of PLN 240m.

After the reporting date, on January 15th 2019, PROKURA NS FIZ and ING Bank Śląski S.A. executed an agreement on a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). On January 17th 2019, an application was filed with the court to enter the pledge in the pledge register. As stated in a notification received, the pledge was entered in the pledge register on February 19th

2019. The registered pledge secures claims up to a maximum amount of PLN 240m. As at December 31st 2018, the carrying amount of the pledged assets in KRUK S.A.'s accounting books was PLN 97.8m.

Termination of credit facility and loan agreements

In 2018, the KRUK Group companies, except for Novum Finance Sp. z o.o., did not terminate any credit facility or loan agreements.

3.10. Securities in issue

In 2018, the Company carried out two bond issues with a total value of PLN 65m, one as a private placement, and the other one as a public offering. The issue price was PLN 1,000 and PLN 100 per bond, respectively, the same as the nominal value.

Table 6. Bond issues in 2018

Bond Series	Nominal value	Issue	Redemption	Interest rate	Interest payment
AE3	PLN 35m	October 2018	October 2023	3M WIBOR + margin of 3.50%	every 3 months
AG1	PLN 30m	November 2018	November 2023	3M WIBOR + margin of 3.50%	every 3 months
total	PLN 65m				

Source: the Company.

After the reporting date, the Company successfully issued Series AG2 unsecured bonds with a total value of PLN 25m. The issue was carried out as a public offering.

Redemption of bonds

In 2018, the Company redeemed the debt securities specified in Table X on the maturity dates set forth in the terms and conditions of the relevant series.

Table 7. Bonds redeemed by the Company in 2018

Bond Series	Redeemed	Number of bonds redeemed	Nominal value
R2	June 2018	15,000	PLN 15m
R3	August 2018	50,000	PLN 50m
R ⁴ +S ¹	October 2018	40,000	PLN 40m
U1	December 2018	10,000	PLN 10m
		total	PLN 115m

Source: the Company.

Liabilities under bonds

As at December 31st 2018, the liabilities under outstanding bonds issued by the Company stood at PLN 1,359m (at nominal value.)

3.12 Loans advanced and sureties and guarantees granted; sureties and guarantees received

Loans advanced by KRUK S.A. to its subsidiaries

In 2018, KRUK S.A. granted loans to its subsidiaries in a total amount of PLN 40.6m (as translated at the exchange rates quoted by the NBP for the loan grant dates). The loans were advanced to:

- KRUK ROMANIA S.R.L of Bucharest,
- RoCapital I.F.N. of Bucharest,
- KRUK Česká a Slovenská republika s.r.o. of Hradec Králové,
- AgeCredit S.r.l of Cesena,
- Novum Finance Sp. z o.o. of Wrocław,
- SeCapital Polska Sp. z o.o. of Wrocław,
- Zielona Perła Sp. z o.o. of Wrocław.

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 of the loans financing the companies' operating activities ranged from 350 days to one year. The agreed maturities of the loans financing the companies' investing activities ranged from one to six years.

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 investing activities. The loans granted in 2018 totalled PLN 9m (as translated into PLN at the mid-exchange rates quoted by the NBP for the loan grant dates).

As at December 31st 2018, the liabilities of KRUK ROMANIA S.R.L towards KRUK S.A. under loans (principal and interest) totalled PLN 67.8m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2018).

Loans advanced to RoCapital I.F.N.

Loans advanced to RoCapital I.F.N. of Bucharest were intended to finance its operating activities. The loans granted in 2018 totalled PLN 4.6m (as translated into PLN at the mid-exchange rates quoted by the NBP for the loan grant dates).

As at December 31st 2018, the liabilities of RoCapital I.F.N towards KRUK S.A. under loans (principal and interest) totalled PLN 4.7m (translated into PLN at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2018).

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 granted in 2018 totalled PLN 23.9m (as translated into PLN at the exchange rates quoted by the NBP for the loan grant dates).

Some of the loans granted in 2017 and 2018, of PLN 15.9m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 20th 2018), were converted into capital – contribution to capital reserves other than the share capital. Interest on these loans was paid.

As at December 31st 2018, outstanding liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK under loans totalled PLN 28.6m (principal and interest) (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2018).

Loans advanced to AgeCredit S.r.l of Cesena

The loan of PLN 0.6m (translated at the mid-exchange rates quoted by the NBP for the loan grant date) advanced to AgeCredit S.r.l. was intended to finance the company's operating activities. As at December 31st 2018, the liabilities of AgeCredit S.r.l. towards KRUK S.A. under loans (principal and interest)

totalled PLN 0.6m (translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2018).

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

In 2018, ERIF Business Solutions Sp. z o.o. did not receive any loans from KRUK S.A.

As at December 31st 2018, ERIF Business Solutions Sp. z o.o. of Wrocław's outstanding liabilities towards KRUK S.A. under loans plus interest amounted to PLN 1.3m.

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

In 2018, KRUK S.A. granted Novum Finance Sp. z o.o. of Wrocław loans of PLN 2.4m, intended for the financing of the company's operating activities.

As at December 31st 2018, outstanding liabilities of Novum Finance Sp. z o.o. towards KRUK S.A. under loans (principal and interest) totalled PLN 20.8m.

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. In 2018, the loans totalled PLN 0.03m. As at December 31st 2018, outstanding liabilities of SeCapital Polska Sp. z o.o. towards KRUK S.A. under loans (principal and interest) totalled PLN 0.1m.

Loans advanced to Zielona Perła Sp. z o.o. of Wrocław

The loan of PLN 0.01 granted to Zielona Perła Sp. z o.o. of Wrocław was intended to finance the company's operations. The loan was repaid in full in 2018. As at December 31st 2018, Zielona Perła Sp. z o.o. had no outstanding liabilities towards KRUK S.A. under loans.

Loans received by the Company from subsidiaries**Loans received from RoCapital I.F.N. of Romania**

In 2018, the Company did not receive any loans from RoCapital I.F.N. However, the Company settled its liabilities (principal and interest) towards RoCapital I.F.N. under loans received in previous years. As at December 31st 2018, the Company had no outstanding liabilities towards RoCapital I.F.N. under loans.

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 2018 totalled PLN 3.2m.

As at December 31st 2018, the Company's outstanding liabilities towards ERIF BIG S.A. under loans (principal and interest) amounted to PLN 8.1m.

Guarantees**Guarantees received**

On December 7th 2018, Santander Bank Polska S.A. (formerly Bank Zachodni WBK S.A) issued annex No. 4 to the bank guarantee of December 17th 2014 for the payment of all liabilities towards DEVCO Sp. z o.o. under a lease contract for a part of an office building, executed between the Company and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2019. The guarantee amount is EUR 282,872.29 and PLN 190,030.02. The guarantee is secured by a power of attorney over the Company's bank accounts held with Santander Bank Polska S.A.

Guarantees issued

In connection with a PLN 17.5m share capital cancellation in InvestCapital Ltd. completed on September 25th 2017, which became final by January 2nd 2018, on September 25th 2017 KRUK S.A. issued to InvestCapital Ltd. a corporate guarantee of up to PLN 17.5m. The guarantee expired on January 2nd 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by January 2nd 2018.

In connection with a PLN 9m share capital cancellation in InvestCapital Ltd. completed on October 24th 2017, which became final by February 17th 2018, on October 24th 2017 KRUK S.A. issued a corporate guarantee of up to PLN 9m to InvestCapital Ltd. The guarantee expired on February 17th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by February 17th 2018.

In connection with a PLN 180m share capital cancellation in InvestCapital Ltd. completed on April 13th 2018, which became final by July 18th 2018, on April 13th 2018 KRUK S.A. issued a corporate guarantee of up to PLN 180m to InvestCapital Ltd. The guarantee expired on July 18th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by July 18th 2018.

In connection with a PLN 30m share capital cancellation in InvestCapital Ltd. completed on June 13th 2018, which became final by October 18th 2018, on June 13th 2018 KRUK S.A. issued a corporate guarantee of up to PLN 30m to InvestCapital Ltd. The guarantee expired on October 18th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by October 18th 2018.

In connection with a PLN 620m share capital cancellation in InvestCapital Ltd. completed on July 10th 2018, which became final by October 25th 2018, on July 10th 2018 KRUK S.A. issued a corporate guarantee of up to PLN 620m to InvestCapital Ltd. The guarantee expired on October 25th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by October 25th 2018.

In connection with a PLN 100m share capital cancellation in InvestCapital Ltd. completed on September 20th 2018, which became final by December 26th 2018, on September 20th 2018 KRUK S.A. issued a corporate guarantee of up to PLN 100m to InvestCapital Ltd. The guarantee expired on December 26th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by December 26th 2018.

In connection with a PLN 20m share capital cancellation in InvestCapital Ltd. completed on November 26th 2018, on November 26th 2018 KRUK S.A. issued a corporate guarantee of up to PLN 20m to InvestCapital Ltd. The guarantee will expire on or before March 12th 2019. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who can challenge the share capital cancellation by March 12th 2019.

Sureties

On September 12th 2018 and November 29th 2018. PROKURA NS FIZ, the Company and mBank S.A. signed annexes No. 5 and 6 to the revolving credit facility agreement of July 2nd 2015. In connection with those annexes, on September 12th 2018 and November 29th 2018, the Company concluded with mBank S.A. annexes No. 3 and 4 to the surety agreement of July 2nd 2015. Under the annexes, the Company provided a surety in respect of Prokura NS FIZ's liabilities under the revolving credit facility agreement (as amended), thus becoming a joint and several debtor in respect of the liabilities. The surety was provided for up to PLN 210m. It will expire on or before July 1st 2026.

On June 21st 2018, annex No. 3 was signed to the framework agreement on the procedure for executing and settling transactions, signed on June 13th 2013 between KRUK S.A. and Santander Bank Polska S.A. (formerly: Bank Zachodni WBK S.A.). Under the annex, InvestCapital LTD became a party to the agreement. In connection with the annex, on June 21st 2018 the Company concluded a surety

agreement with Santander Bank Polska S.A., whereby the Company became a joint and several debtor with respect to InvestCapital LTD's liabilities under the framework agreement. The surety was provided for up to PLN 162.4m and will expire on or before October 31st 2021.

On October 26th 2018, an annex was signed in the form of a consolidated text (the "Annex") to the revolving multi-currency credit facility agreement between KRUK S.A., subsidiaries of InvestCapital Ltd. and Kruk Romania S.R.L. (the "Borrowers") and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. (formerly: Bank Zachodni WBK S.A.), mBank S.A. The main purpose of the Annex was for the subsidiary Kruk Romania S.R.L. to become the second Borrower and for the final repayment date to be re-set to July 3rd 2023. KRUK S.A. provided a surety in respect of the liabilities of InvestCapital Ltd. and Kruk Romania S.R.L. up to the amount of EUR 375m for the effective term of the revolving multi-currency credit facility agreement. In accordance with the Annex, on October 30th 2018 the Company made a declaration on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to EUR 375m, which will expire on or before June 30th 2026. Under the Annex, Kruk Romania S.R.L., as the additional Borrower, provided a surety in respect of InvestCapital Ltd.'s liabilities up to the amount of EUR 375m for the effective term of the revolving multi-currency credit facility agreement.

On December 20th 2018, Prokura NS FIZ, the Company and ING Bank Śląski S.A. signed a revolving credit facility agreement referred to in Section 3.11.3. The Company provided a surety in respect of Prokura NS FIZ's liabilities under the agreement, thus becoming a joint and several debtor in respect of the liabilities. The surety was provided for up to PLN 240m. It will expire on or before December 20th 2026. In accordance with the agreement, on January 17th 2019, the Company (in connection with the surety provided) and Prokura NS FIZ made declarations on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 240m, which will expire on or before December 20th 2026.

3.13 Development directions and prospects

3.13.1 Strategy for 2019–2024

In December 2018, the KRUK Group decided to announce a new strategy, following the completion of a strategic options review. The Group's mission and long-term vision remain unchanged. However, a new strategic objective was set, to be achieved in 2019–2024. Main points of the new strategy are set out in the Section below. For information on implementation status of the previous strategy, see Section 4.3.2 Strategy implementation progress.

Mission:

Our client base includes individuals and businesses facing the problem of excessive debt.
We build positive relations and help our clients regain creditworthiness.
We safeguard compliance with social norms and legal rules requiring that liabilities incurred must be settled.

Vision:

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

Key objective for 2019–2024:

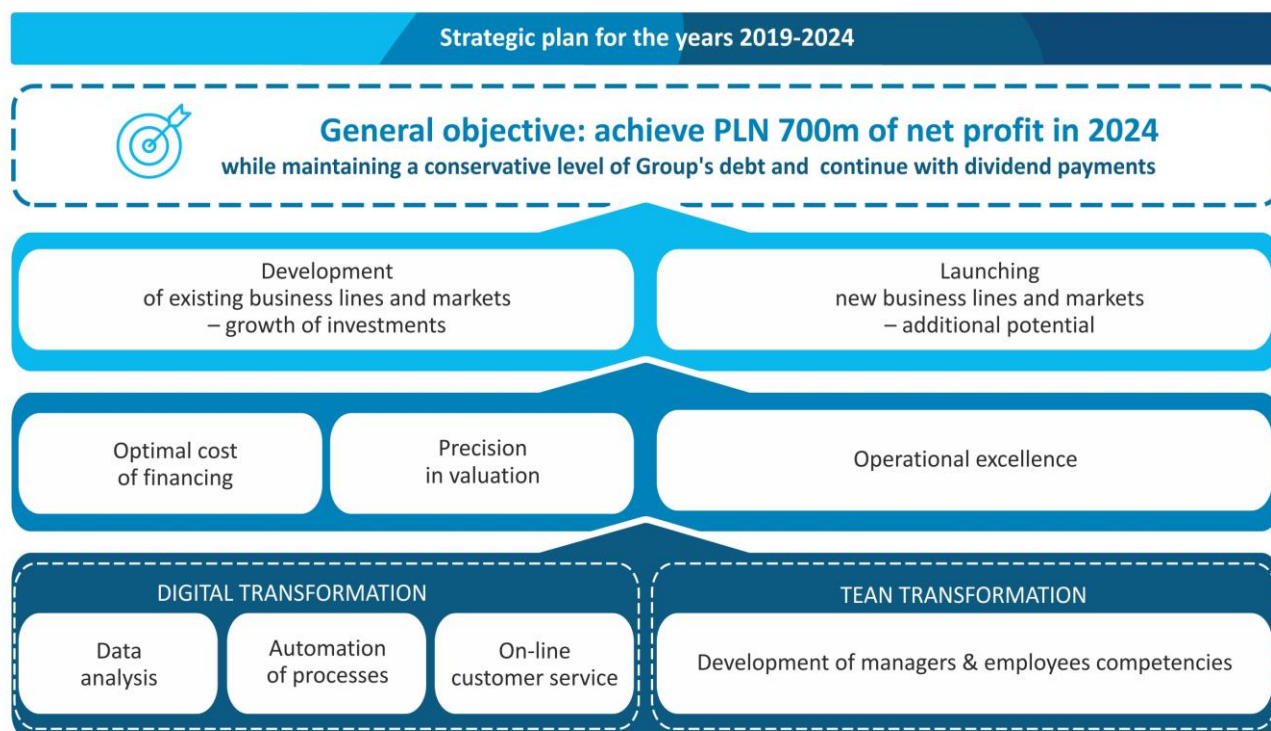
Generating PLN 700m in net profit in 2024 while maintaining a conservative level of debt and the ability to pay dividends.

3.13.2 Strategy implementation progress 2015–2018

The key objective defined in the strategy for 2015–2018 was

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

In the period covered by the 2015–2018 Strategy (now closed), KRUK doubled its net profit from PLN 152m to PLN 330m, delivering an average annualised EPS growth of 18.3%



The average EPS growth in 2015–2018 was 18.3%, which is above the target set in the Strategy (at least 15% annually). In 2017 and 2018, the EPS growth was below the strategic growth rate, amounting to 11.8% and 11.3%, respectively.

In 2015–2018, average ROE stood at 22.4%, while the Strategy assumed a ROE of above 20%. ROE fell slightly below the level provided for in the Strategy only in 2018, when it came in at 19.1%.

Progress in achieving this target is presented in the table below.

	2015	2016	2017	2018	Average*
EPS growth rate	32.3%	18.9%	11.8%	11.3%	18.3%
ROE	26.0%	24.3%*	20.1%	19.1%	22.4%

* Geometric mean was used for EPS growth, and arithmetic mean for ROE.

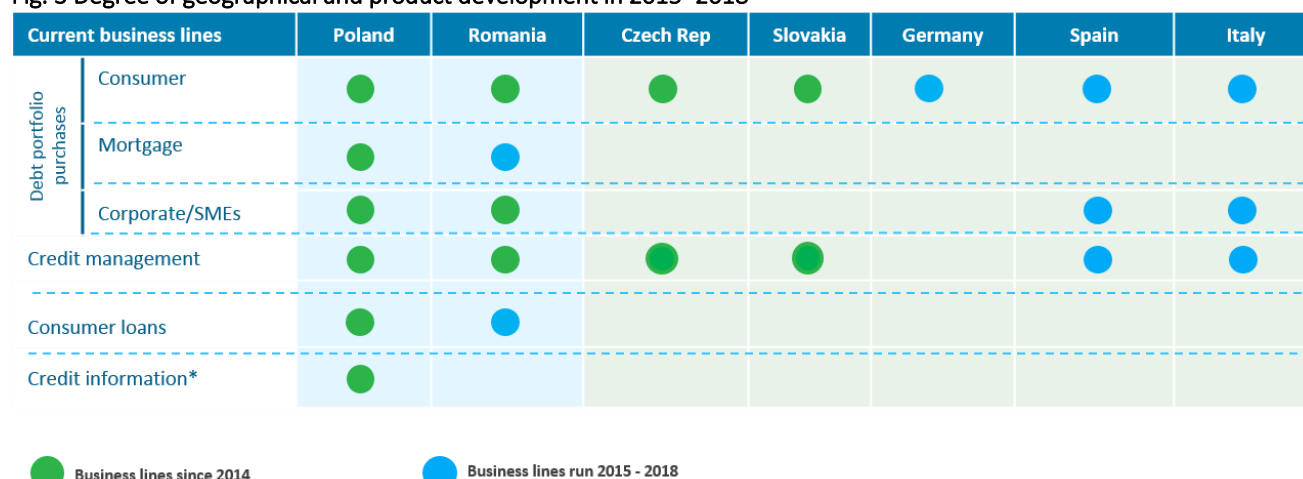
** ROE for 2016 exclusive of the share issue in December 2016.

The key objective was pursued through specific objectives. Measures undertaken to achieve them are described below.

Product range development and growth in geographical regions

In 2015–2018, the KRUK Group expanded rapidly, entering three more countries and launching further business lines in both existing and new markets.

Fig. 3 Degree of geographical and product development in 2015–2018



* With regard to credit management, the line was not active in 2018 in the Czech Republic and Slovakia.

Source: the Company.

Improvement of management efficiency

Measures designed to enhance the Group's efficiency were taken throughout the 2015–2018 strategic time span and covered the entire organisation, with a particular focus on the following aspects:

- Expanding expertise in tender procedures and maintaining lasting relations with trading partners;
- Increasing the reach of clients (debtors);
- Development of customer experience processes;
- Development of online services (e-Kruk);
- Continuous improvement of data analysis methods,
- Optimisation measures, including those based on lean management tools;
- Improvement of the systematic approach to risk management;
- Creating an excellent and effective working environment for positive and passionate people.

3.14 Capital expenditure programme

3.14.1 Capital expenditure

In 2018, the main capital expenditure made by the Company included PLN 3.0m spent on new vehicles (including under finance lease contracts) and PLN 2.3m spent on plant and equipment. The Company also made material investments of PLN 6.3m in licences and software, including PLN 5.5m invested in proprietary software.

3.14.2 Investments within the Group

In 2018, KRUK S.A. increased/reduced the share capitals of its subsidiaries:

Table 9. Increase and reduction of the share capitals of the Group's subsidiaries

Company	Action	Amount
SeCapital S.à r.l.	Share capital reduction	PLN 2.2m
InvestCapital Ltd.	Share capital increase	PLN 71m
InvestCapital Ltd.	Share capital reduction	PLN 950m
KRUK Česká a Slovenská republika s.r.o.	Conversion of loans (excluding interest) to capital – contribution to capital other than the share capital	PLN 15.88m*
KRUK Deutschland GmbH	Additional contributions to statutory reserve funds	PLN 0.45m**
KRUK Espana S.L.	Additional contributions to statutory reserve funds	PLN 25.3m**
KRUK Italia S.r.l.	Additional contributions to statutory reserve funds	PLN 45.1m**
AgeCredit S.r.l.	Additional contributions to statutory reserve funds	PLN 2.1m**

ItaCapital S.r.l.	Additional contributions to statutory reserve funds	PLN 0.65m**
ProsperoCapital S.à r.l.	Additional contributions to statutory reserve funds	PLN 0.1m**

*Translated at the mid-exchange rate quoted by the NBP for the day of signing the contract, i.e. December 20th 2018.

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

Source: the Company.

In 2018, the subsidiary InvestCapital Ltd reduced the share capital of SeCapital S.à.r.l. by a total amount of PLN 350.5m.

Establishment of new companies

On January 8th 2018, the articles of association of Zielona Perła sp. z o.o., with a share capital of PLN 4.6m, were executed. The company is wholly owned by KRUK S.A. and its principal business activity consists in buying and selling of own real estate and renting and operating of own or leased real estate.

Acquisition of shares in foreign companies

On April 16th 2018, KRUK S.A. concluded an agreement with a shareholder in AgeCredit S.r.l. of Cesena, Italy, to acquire a 51% interest in the company. The agreement envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, KRUK S.A. acquired 100% of shares in AgeCredit S.r.l.

3.14.3 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.

3.15 Risk factors – internal factors [G4-2] [G4-14]

3.15.1 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;
- Lower availability of external financing;
- Incorrect valuation of investments, including debt portfolios purchased;
- Changes to legal regulations and their interpretation and actions of regulatory authorities;
- Unfavourable decisions of Company shareholders;
- Force majeure events.

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.

3.15.2 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).

3.15.3 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.

3.15.4 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.

3.15.5 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 bonds it has issued, it may be obliged to redeem such bonds early.

3.15.6 Risk of losing experienced management staff

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

3.15.7 Risk of IT 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 Group 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.

3.15.8 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.

3.15.9 Risk of negative PR in relation to the Company

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

As the leader of the debt management market, the KRUK Group is also exposed to the consequences of unethical practices of other debt management companies, which tend to be attributed to the entire industry, in particular the most recognisable operators on the market.

The Company's operations involve managing debt owed by natural persons. It should therefore be borne in mind that some of those persons are in difficult financial and personal circumstances, suffer from ill health or experience problems in their families or work. Among debtors that the KRUK Group deals with are people suffering from depression or undergoing psychiatric treatment. Some of them express an intention to commit suicide. All this gives rise to the risk of bad publicity around the operations of the KRUK Group.

3.15.10 Risk connected with personal data processing

The Company's business requires processing of personal data transferred to the Group by creditors assigning their debts to KRUK. This means that in accordance with applicable laws the Company receives customer data, and no assurance can be given that the data is fully accurate. If incorrect data is transferred to the Company, there is a risk that it may relate to a person other than the actual debtor, which may lead to an increase in the number of complaints or grievances registered with the authority which supervises personal data processing. Although the Company has no control of whether the data provided by the assigning entity is correct, such a situation may result in the publication of negative opinions about the Company and may adversely affect its image. This may happen even though the Group has procedures and tools in place to mitigate this risk.

3.15.11 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.

3.15.12 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 2017 as many as 695 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 helps mitigate the risk of incorrect estimate of the fair value of purchased debt portfolios.

3.15.13 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).

3.15.14 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.

3.15.15 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 spending;
- Flexible management of cash flows between the Group entities;
- Conducting debt management activities on a continuous basis, ensuring continuous cash inflow;
- Ensuring 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.

3.15.16 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, an incentive scheme, grants for financing postgraduate courses or specialised English courses or for financing the cost of obtaining professional certifications, as well as medical cards, gym membership cards, and points in the MyBenefit cafeteria system. Moreover, an incentive scheme for key management staff has been put in place to ensure employee retention.

3.15.17 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.

3.15.18 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.

3.15.19 Managing the risk of negative PR in relation to the Company

The Group makes every effort to build a positive image of the entire debt management industry and all of the KRUK Group companies. Therefore, the Group undertakes initiatives aimed at enhancing the positive image of its brand, including:

- information and media campaigns targeted at indebted individuals and companies,
- projects connected with educational campaigns in Poland and abroad, including publication of various educational materials in the Internet, press, radio and television,
- educational publications that promote its amicable settlement strategy in consumer and regional magazines and newspapers in: Poland, Romania, the Czech Republic, Slovakia, Italy and Spain,
- press releases, consumer advice articles and individual statements and comments for the media,
- participation in charity projects aimed at supporting local communities, especially persons in need of assistance, e.g. by partnering the Business Run charity event,
- training courses for debtors on how to get out of debt and on managing the personal budget,
- cooperation with non-profit organisations promoting financial education among the public, including with the Conference of Financial Companies in Poland (Konferencja Przedsiębiorstw Finansowych w Polsce),
- putting in place a procedure to minimise the risk of illegal processing of personal data and implementing mechanisms minimising such risk in IT systems,
- monitoring the media for information on the industry and the KRUK Group and responding appropriately when needed.

3.15.20 Managing the risk connected with personal data processing

The KRUK Group has developed procedures and implemented in its IT systems mechanisms designed to reduce the risk of unlawful processing of personal data. The Group collects personal data from legal sources only. We respect the applied by controllers of data stored in publicly available databases. The Group records the sources of all personal data it has obtained. Persons whose data has been received are immediately notified of the fact, and any information obligations towards such persons, laid down in the personal data protection regulations, are complied with. Any information of a potential error is verified and the data is corrected.

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.

These separate financial statements have been prepared on the following bases of measurement:

- amortized cost determined using the effective interest rate method for:
 - purchased or originated credit impaired assets (less allowance for expected credit losses);
 - financial assets under the business model which purpose is to collect contractual cash flows;
 - other financial liabilities
- fair value for derivative financial instruments.

Purchased debt portfolios comprise high-volume portfolios of overdue debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Company under debt assignment agreements. Prices paid by the Company for such debt portfolios are significantly lower than their nominal value (impaired financial assets due to credit risk).

All purchased debt portfolios are classified by the Company as measured at amortised cost to better reflect the portfolio management strategy focused on holding an asset with a view to maximising contractual recoveries.

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. 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 containing an element allowing for credit risk, 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 actual 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. In 2018, the Company's standalone loss totalled PLN 57.8m.

4.3 Revenue by product

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

In 2018, KRUK generated total revenue of PLN 120m, 16% less than in 2017. Revenue from management of purchased debt, revenue from credit management and other revenue fell by, respectively, 2%, 16% and 37%, respectively.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit. In the presentation of data by geographical segments, revenue is recognised based on the location of debt collection offices.

Table 10. Revenue by product and market

For the year ended December 31st 2017	Poland	Romania	Other foreign markets	TOTAL
Revenue	96,629	37,169	8,924	142,722
Purchased debt portfolios	11,476	34,645	1,265	47,386
Credit management services	65,660	-	-	65,660
Other products	19,494	2,524	7,659	29,677
Direct and indirect costs				(113,732)
Purchased debt portfolios	-	-	-	(14,066)
Credit management services	-	-	-	(97,197)
Other products	-	-	-	(2,469)
Gross profit				28,991
Purchased debt portfolios	-	-	-	33,320
Credit management services	-	-	-	(31,538)
Other products	-	-	-	27,209
Administrative expenses	-	-	-	(79,463)
Depreciation and amortisation	-	-	-	(11,684)
Other income	-	-	-	2,085
Other expenses (unallocated)	-	-	-	(4,951)
Finance income/costs	-	-	-	125,752
Profit before tax	-	-	-	60,729
Income tax	-	-	-	(31,215)
				29,514
Net profit	-	-	-	
Carrying amount of debt portfolios	6,551	25,428	2,495	34,474
Cash recoveries	8,639	42,385	2,264	53,288

Source: the Company.

For the year ended December 31st 2018	Poland	Romania	Other foreign markets	TOTAL
Revenue	75,318	39,989	4,868	120,175
Purchased debt portfolios	8,460	36,577	1,428	46,464
Credit management services	54,918	-	-	54,918
Other products	11,940	3,412	3,440	18,792
Direct and indirect costs				(115,204)
Purchased debt portfolios	-	-	-	(10,720)
Credit management services	-	-	-	(101,599)
Other products	-	-	-	(2,885)
Gross profit				4,970
Purchased debt portfolios	-	-	-	35,744
Credit management services	-	-	-	(46,681)
Other products	-	-	-	15,908
Administrative expenses	-	-	-	(81,751)
Depreciation and amortisation	-	-	-	(13,073)
Other income	-	-	-	(6,094)
Finance income/costs	-	-	-	40,827
Profit before tax	-	-	-	(55,119)
Income tax	-	-	-	(2,699)
Net profit	-	-	-	(57,818)
Carrying amount of debt portfolios	7,765	28,917	2,117	38,800
Cash recoveries	7,850	34,943	1,956	44,749

Source: the Company.

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

Table 11. Structure of assets and liabilities in the statement of financial position

As at December 31st 2018

PLN '000

	Note	Dec 31 2018	Dec 31 2017
Assets			
Cash and cash equivalents	20	9,151	16,917
Trade receivables from related entities	19	21,814	45,207
Trade receivables from other entities	19	2,811	2,881
Investments	16	176,905	172,297
Other receivables	19	7,223	9,276
Inventories	18	22	171
Property, plant and equipment	13	16,169	19,062
Intangible assets	14	16,547	15,183
Deferred tax asset	17	453	-
Other derivatives	24	1,450	8,637
Investments in subsidiaries	15	2,143,481	2,849,889
Other assets		4,173	4,133
Total assets		2,400,199	3,143,654
Equity and liabilities			
Liabilities			
Other derivatives	24	3,870	1,375
Trade and other payables	27	62,948	593,741
Employee benefit obligations	25	19,199	17,673
Income tax payable		12,295	14,401
Liabilities under borrowings and other debt instruments	23	1,731,998	1,786,487
Deferred tax liability	17	-	15,351
Total liabilities		1,830,310	2,429,028
Equity			
Share capital	21	18,887	18,808
Share premium		300,097	293,581
Hedging reserve		(3,869)	5,882
Other capital reserves		94,924	86,806
Retained earnings		159,850	309,548
Total equity		569,889	714,625
Total equity and liabilities		2,400,199	3,143,654

Source: the Company.

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 denominated 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 12. Value of purchased debt portfolios, PLN '000

Value of purchased debt portfolios as at Jan 1 2018	36,700
Cash recoveries	(44,653)
Revenue from debt purchase (interest and revaluation)	46,609
Foreclosure of property	144
Value of purchased debt portfolios as at Dec 31 2018	38,800

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 2018.

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

In 2018, KRUK S.A. did not publish any financial forecasts for 2018.

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

On August 9th 2018, a framework agreement was made between KRUK S.A. and ING Bank Śląski S.A. for the execution of FX forward transactions, under which the parties may enter into forward transactions.

On June 21st 2018, annex 3 was signed to the framework agreement on the procedure of conducting and settling transactions of June 13th 2013 between KRUK S.A. and Santander Bank Polska S.A. (previously Bank Zachodni WBK S.A.). Under the annex, InvestCapital LTD joined the agreement as another party, making it a tripartite agreement.

In 2018, the KRUK Group had open contracts with Bank Zachodni WBK S.A. (currently Santander Bank Polska S.A.) in 2017:

(a) Two currency interest rate swaps (CIRS). The contracts hedge both the currency and the interest rate risk as they effectively replace the Company's debt contracted in PLN with EUR-denominated liabilities:

- contract hedging the 3M WIBOR-linked coupon on Series Z1 bonds with a nominal value of PLN 100m. The Company pays at a fixed rate of 3.06%, while Santander Bank Polska S.A. 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 amount and will be made on June 4th 2021. On that day, the Company will receive PLN 100m from Santander Bank Polska S.A. and will pay EUR 22.8m to Santander Bank Polska S.A.

- contract hedging the 3M WIBOR-linked coupon on Series AA1 bonds with a nominal value of PLN 90m. The Company pays at a fixed rate of 2.97%, while Santander Bank Polska S.A. 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 amount and will be made on November 10th 2021. On that day, the Company will receive PLN 90m from Santander Bank Polska S.A. and will pay EUR 20.6m to Santander Bank Polska S.A.

b) Two interest rate swaps (IRS):

- contract hedging the 3M WIBOR-linked portion of the coupon on Series AA2 bonds with a nominal value of PLN 150m. The Company pays at a fixed rate of 2.50%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR. Payments are made every three months (interest period). The contract will end on March 2nd 2022.

- contract hedging the 3M WIBOR-linked portion of the coupon on Series AC1 bonds with a nominal value of PLN 50m. The Company pays at a fixed rate of 2.50%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR. Payments are made every three months (interest period). The contract will end on May 4th 2022.

After the reporting date, on February 28th 2019 KRUK S.A. and Santander Bank Polska S.A. entered into an FX forward contract to hedge the Group's currency risk by hedging the PLN value of a part of net assets in InvestCapital Ltd., ensuring an agreed forward rate of exchange, set at 4.3127.

Under the contract, the Company is obliged to sell EUR 65,000,000.00 for PLN 280,325,500.00 on March 29th 2019. The Company intends to extend the hedge for subsequent periods, or to settle the contract with foreign exchange differences, without delivering the currency.

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.

Market risk

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

Currency risk

Exposure to currency risk is identified by the Company in connection with its strong foreign expansion and growing investments in portfolios denominated in foreign currencies. If there is no access to financing denominated in a given currency, such investment may partly be financed with debt contracted in the Polish zloty. 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.

The Group is also exposed to the risk of deterioration in its financial results due to unhedged currency exposures (the risk of incurring foreign exchange losses).

Interest rate risk

As the Company's debt is denominated in the złoty and the euro (credit facilities and bonds) and bears interest at variable rates, 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 compliance with the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Company's activities. 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 13. Assets relating to credit risk

PLN '000

	Note	Dec 31 2018	Dec 31 2017
Financial assets at fair value through profit or loss	16	-	33,334
Financial assets measured at amortised cost	16	38,800	1,140
Investment property	16	27,238	23,239
Loans advanced to related entities	19	110,867	114,584
		176,905	172,297

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.

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 include:

- Regular monitoring of cash needs and expenses;
- Flexible management of cash flows between the Company's subsidiaries;
- 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 while seeking to optimise the rate of return so as to:

- maintain a stable financial position in the long-term;
- mitigate the liquidity risk;
- reduce the impacts of market risk on profit or loss;
- mitigate the risk of non-compliance with financial covenants under credit agreements and bond issue prospectuses.

In order to meet these objectives, the Group follows and periodically reviews its internal currency and interest rate risk management policies.

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. The Group monitors the value of unhedged currency exposures and the effect of exchange rate and interest rate fluctuations on its profit or loss. Moreover, under framework agreements with banks, the Group may enter into derivative contracts to hedge the currency and interest rate risk.

The market risk management objectives are achieved through efforts implemented at the individual Group entities in Poland and abroad, with the efforts coordinated by the Company as the entity responsible for market risk identification and management.

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 control and service its debt and manages its financial resources in a prudent manner. For detailed information, see Note 23 to the financial statements.

5 CORPORATE GOVERNANCE

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 Adopted code of corporate governance

In 2018, the Company applied the corporate governance standards described in the Best Practice for WSE Listed Companies 2016 (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 Warsaw Stock Exchange website dedicated to corporate governance (<http://www.corp-gov.gpw.pl>).

5.2 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. This statement remains valid also for corporate governance standards complied with in 2017.

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 would like to note that the Company has a separate internal audit unit in its organisational structure. This unit is objective, independent and impartial, it reports directly to the President of the Management Board, and has the possibility to submit its reports directly to the audit committee, in accordance with principle III.Z.2. However, the principles 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, the company should enable its shareholders to participate in a general meeting using electronic communication means, in particular using real-time 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. This recommendation applies to a situation where the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means. In the Management Board's opinion, KRUK S.A.'s free float is not significant enough to justify holding 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.

5.3 Shareholding structure

5.3.1 Shareholders holding directly or indirectly major holdings in KRUK S.A.

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at January 1st 2018, based on shareholder notifications received by the Company.

Table 14. Major holdings in KRUK S.A as at January 1st 2018

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1,963,407	10.44
NN PTE*	2,100,000	11.17
Aviva OFE*	1,149,000	6.11

(*) 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 May 15th 2017.

Source: The Company.

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at December 31st 2018

Table 15. Major holdings in KRUK S.A as at December 31st 2018

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1,931,666	10.23
NN PTE*	2,000,000	10.59
Aviva OFE*	1,319,000	6.98

(*) 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 April 18th 2018.

Source: The Company.

The table below presents the shareholders holding directly or indirectly major holdings in KRUK S.A. as at March 7th 2019.

Table 16. Major holdings in KRUK S.A as at the report issue date

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1,931,666	10.23
NN PTE*	2,000,000	10.59
Aviva OFE*	1,319,000	6.98

(*) 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 April 18th 2018.

Source: The Company.

5.3.2 Changes in the shareholding structure in the reporting year

Below are described changes in significant holdings of KRUK S.A. shares in 2018.

- On September 13th 2018, the Company was notified by Piotr Krupa, President of Management Board and a major shareholder in the Company, of the sale of KRUK S.A. shares in ordinary trades on the Warsaw Stock Exchange: 1,000 shares at the average price of PLN 190.33 per share on September 10th 2018, 10,000 shares at the average price of PLN 184.00 per share on September 11th 2018, and 5,511 shares at the average price of PLN 183.33 per share on September 12th 2018.
- On December 14th 2018, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 5,230 shares in KRUK S.A. for the average price of PLN 163.90 per share on December 12th 2018 and 10,000 shares in KRUK S.A. for the average price of PLN 164.12 per share on December 13th 2018.

5.3.3 Treasury shares

Treasury shares in the period June 1st 2018 – May 31st 2021

The Annual General Meeting of KRUK S.A. of April 18th 2018 passed 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 2018 to May 31st 2021, with the proviso that the total par value of the shares so purchased may not exceed PLN 3,761,580, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 500m, 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 250 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 2021 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 2018, the Company did not buy back any of its shares.

5.3.4 Holders of securities conferring special control powers

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

5.3.5 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.

5.3.6 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.

5.3.7 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.

5.3.8 Incentive scheme

Incentive scheme for 2015–2019

The incentive scheme for 2015–2019 was approved by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the "2015–2019 Plan").

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011–2014 Plan can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015–2019 Plan is addressed to the key management personnel of KRUK S.A. and the other Group companies. In accordance with its terms, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution.

For the purposes of the 2015–2019 Plan, the General Meeting approved a conditional increase in the Company's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. 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.

By way of its resolution of September 8th 2014, the Supervisory Board defined and approved the Rules for the Management Stock Option Plan for 2015–2019.

Details of the 2015–2019 Plan can be found in the Directors' Report on the operations of the KRUK Group in 2017.

Tranche 1

On June 9th 2016, the Supervisory Board declared, by way of resolution, that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 1 for 2015 had been met.

On June 17th 2016, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 1 subscription warrants for 2015 under the 2015–2019 Plan.

On this basis, on June 22nd 2016, the Management Board invited the eligible persons other than 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 Management Board passed a resolution determining the list of Management Board members eligible to acquire Tranche 1 Subscription Warrants for 2015 under the 2015–2019 Scheme, which was later amended by the Management Board resolution of October 24th 2016. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 subscription warrants under the 2015–2019 Plan. On October 27th 2016, 20,000 subscription warrants were delivered to the eligible persons other than Management Board members.

By the issue date of this report, 77,964 warrants issued in Tranche 1 were converted into newly issued Series F shares in the Company. Thus, 28,471 Tranche 1 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 13,500 of those warrants are held by Management Board members.

Tranche 2

By way of a resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 2 for 2016 had been met.

On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Plan. On this basis, on July 4th 2017, the Management Board invited the eligible persons

other than Management Board members to acquire Tranche 2 subscription warrants. As a result, 91,467 subscription warrants were delivered to the eligible persons on July 7th 2017.

On August 10th 2017, the Management Board passed a resolution to determine the list of Management Board members eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Plan. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 2 subscription warrants under the 2015–2019 Plan. On August 27th 2017, 50,480 subscription warrants were delivered to the eligible Management Board members.

By the issue date of this report, 64,681 Tranche 2 subscription warrants were converted into newly issued Series F shares in the Company. 77,266 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 50,480 of those warrants are held by Management Board members.

Tranche 3

By way of a resolution dated May 11th 2018, the Supervisory Board declared that the condition set forth in the Stock Option Plan for offering subscription warrants under Tranche 3 for 2017 had been met.

On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons

other than Management Board members who were eligible to acquire Tranche 3 Subscription Warrants for 2017 under the 2015–2019 Scheme. On this basis, on June 20th 2018, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to eligible persons on July 3rd 2018.

On September 11th 2018, the Management Board passed a resolution to determine the list of Management Board members eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015–2019 Plan. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015–2019 Plan. On September 17th 2018, 54,344 subscription warrants were delivered to eligible Management Board members.

Table 17. Number of subscription warrants held by Management Board members as at December 31st 2018

Name and surname	Position	Number of warrants held under Tranches 1, 2 and 3 for 2015, 2016 and 2017
Piotr Krupa	CEO and President of the Management Board	32,376
Agnieszka Kułton	Member of the Management Board	23,112
Urszula Okarma	Member of the Management Board	23,112
Iwona Słomska	Member of the Management Board	19,862
Michał Zasępa	Member of the Management Board	19,862

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 Table below.

Table 18. Historical information on dividends paid out to KRUK S.A. shareholders

Profit for the year	2014*	2015	2016	2017
Dividend payment date	July 24th 2015	July 29th 2016	July 5th 2017	April 27th 2018
Dividend per share (PLN)	1.5	2	2	5
Total dividend (PLNm)	25.9	35.49	37.49	94.04

* No dividends were paid by the Company prior to 2014.

Source: the Company.

For the calendar of events related to dividend payment in 2018, see Table 28.

Table 19. Calendar of events related to dividend payment in 2018

Date	
March 6th 2018	Management Board's resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 5 per share from the 2017 net profit increased by an amount transferred from statutory reserve funds created out of retained earnings.
March 19th 2018	Supervisory Board's resolution to approve the Management Board's recommendation on the allocation of KRUK S.A.'s net profit for 2017
April 18th 2018	Annual General Meeting's resolution on allocation of KRUK S.A.'s 2017 net profit in line with the Management Board's recommendation
April 25th 2018	Dividend record date. The dividend is to be paid on 18,807,900 KRUK S.A. shares.
April 27th 2018	Dividend payment date

Source: the Company.

Furthermore, after the reporting date and by the date of issue of this report, the Company's Management Board did not resolve on a proposed allocation of the Company's net profit for 2018.

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 [G4-34]

5.5.1 Management Board

5.4.1.1. *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 2018, the Management Board consisted of five members.

As on March 13th 2018 the Management Board's term of office had expired, on March 19th 2018 the Supervisory Board appointed the Management Board members for another term of office.

Composition of the Management Board in 2018 is presented in the table below.

Table 20. Composition of the Management Board of KRUK S.A. in 2018

Name and surname	Position
Piotr Krupa	CEO and 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 Articles 7.1 and 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 President of the Management Board is appointed and removed by the Supervisory Board. The other members of the Management Board are also appointed and removed by the Supervisory Board, following a request by 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 the member held the office.

5.5.2 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 Article 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 votes. In the case of a voting tie, the President of the Management Board has the casting vote.

A declaration of will on behalf of the Company may be made by: (i) two members of the Management Board acting jointly; (ii) a Management Board member acting jointly with a commercial proxy; or (iii) an attorney authorised to perform certain types of activities, acting on their own under a written power of attorney granted 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. 20/2018 of the Annual General Meeting of KRUK S.A. of Wrocław, held on April 18th 2018, 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.

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

Table 21. KRUK S.A. shares held by Management and Supervisory Board members as at January 1st 2018

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,963,407	1,963,407
Agnieszka Kułton	Member of the Management Board	45,000	45,000
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	36,750	36,750
Michał Zasępa	Member of the Management Board	32,191	32,191
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

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 2018 to the date of issue of this report there were also changes in the holdings of Company shares held by Iwona Słomska and Michał Zasępa, as described below.

On May 23rd 2018, the Company received notifications from Iwona Słomska and Michał Zasępa, given under Article 19 of the MAR, to the effect that on May 23rd 2018 each of them had acquired 3,250 shares in KRUK S.A. at the average price of PLN 83.52 per share, outside a trading venue, in connection with the exercise of stock options under the management stock option plan.

On November 2nd 2018, the Company received a notification from Michał Zasępa, given under Article 19 of the MAR, to the effect that Michał Zasępa had sold, in ordinary session trades on the Warsaw Stock Exchange, 418 shares in KRUK S.A. for the average price of PLN 182.70 per share on October 30th 2018 and 4,582 shares in KRUK S.A. for the average price of PLN 183.24 per share on October 31st 2018.

Table 22. KRUK S.A. shares held by Management and Supervisory Board members as at December 31st 2018

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,931,666	1,931,666
Agnieszka Kułton	Member of the Management Board	45,000	45,000
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	30,441	30,441
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

Source: the Company.

List of notifications received from the management and supervisory personnel in 2018.

Piotr Krupa – summary of notifications in 2018

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
September 13th 2018	September 10th 2018	1,000	Sale	PLN 190.33	WSE
	September 11th 2018	10,000	Sale	PLN 184.00	WSE
	September 12th 2018	5,511	Sale	PLN 183.33	WSE
December 14th 2018	December 12th 2018	5,230	Sale	PLN 163.90	WSE
	December 13th 2018	10,000	Sale	PLN 164.12	WSE

Michał Zasępa – summary of notifications in 2018

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
May 23rd 2018	May 23rd 2018	3,250	Purchase	PLN 83.52	Outside a trading venue
November 2nd 2018	October 30th 2018	418	Sale	PLN 182.70	WSE
	October 31st 2018	4,582	Sale	PLN 183.24	WSE

Iwona Słomska – summary of notifications in 2018

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
May 23rd 2018	May 23rd 2018	3,250	Purchase	PLN 83.52	Outside a trading venue

Members of the management or supervisory bodies holding Company shares or rights to Company shares as at the report issue date

Table 23. KRUK S.A. shares held by Management and Supervisory Board members as at this report issue date

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	1,931,666	1,931,666
Agnieszka Kulon	Member of the Management Board	45,000	45,000
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	30,441	30,441
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

Source: the Company.

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

Pursuant to Article 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.

Under the managerial contracts that have been in force since January 1st 2017, 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, unless termination takes place in circumstances where the contract may be terminated with immediate effect, without notice or compensation and except where a Management Board member is removed for reasons attributable to that member, the Management Board member is 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 provided 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.

The tables below present the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2018) from the Company and its subsidiaries for 2017 and 2018.

Table 24. Remuneration of the Management Board members in 2018

Name and surname	Remuneration from the Company for 2018	Additional benefits* from the Company for 2018	Remuneration from the subsidiaries for 2018	Additional benefits* from the subsidiaries for 2018
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6.28	-	-
Agnieszka Kułton	768	6.28	-	-
Urszula Okarma	768	5.20	-	-
Iwona Słomska	768	5.20	-	-
Michał Zasępa	768	68.15	-	-

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

Source: the Company.

Table 25. Remuneration of the Management Board members in 2017

Name and surname	Remuneration from the Company in 2017	Additional benefits* from the Company for 2017	Remuneration from the subsidiaries in 2017	Additional benefits* from the subsidiaries in 2017
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6.18	-	-
Agnieszka Kułton	768	6.18	1.89	-
Urszula Okarma	768	5.1	5.53	-
Iwona Słomska	768	5.1	-	-
Michał Zasępa	768	68.57	-	-

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

Source: the Company.

The total value of remuneration and additional benefits for 2018 paid by the Company and its subsidiaries to the Management Board members specified above amounted to PLN 5,472 thousand and PLN 91.11 thousand, respectively. In 2017, the respective figures were PLN 5,472 thousand and PLN 91.13 thousand.

Additional benefits received from the Company for 2018 do not include bonuses and awards for the Management Board members for 2018. The bonuses will be paid in 2019, in the amount reflecting the degree of implementation of the Company's financial plan and – in the case of the discretionary bonuses – in an amount determined by the Supervisory Board.

Moreover, as part of the 2015–2019 Plan, members of the Management Board were offered the number of subscription warrants for 2017 specified in the Management Board's Resolution of September 11th 2018 and Supervisory Board's Resolution of September 12th 2018, subject to fulfilment of certain conditions specified in the General Meeting's Resolution No. 26/2014 of May 28th 2014.

In line with the terms of the 2015–2019 Plan, the number of subscription warrants to be granted to Management Board members in each year of the Stock Option Plan may not exceed 50% of the total number of subscription warrants offered for subscription by eligible persons as part of a given tranche.

For detailed information on the incentive schemes operated by the Company, see the *Incentive scheme* Section.

5.6 Supervisory Board

5.6.1 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 2018 to December 31st 2018, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. remained unchanged and is presented below.

Table 26. Composition of the Supervisory Board of KRUK S.A. in 2018

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

Source: the Company.

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

Table 27. Gender diversity on the Supervisory Board of KRUK S.A. in 2018

Women	14%
Men	86%

Source: the Company.

5.6.2 Operation of the Supervisory Board

The Supervisory Board exercises supervision over each area of the Company's operations. Powers of the Supervisory Board, in addition to those defined in the Commercial Companies Code, include in particular:

- Assessing the 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 distribution of profit or coverage of loss;
- Submitting to the General Meeting an annual written report on the results of the assessment referred to above;
- Appointing and removing the President of the Management Board;
- Appointing and removing members of the Management Board (including Vice-Presidents);
- Suspending members of the Management Board and delegating members of the Supervisory Board to temporarily carry out the duties of Management Board members unable to perform their duties;
- Defining, at the request of the President of the Management Board, the rules and amount of remuneration for the Management Board members;
- Defining the amount of remuneration for the President of the Management Board;
- Approving the Company's annual financial plans (budgets) 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 received from the other companies of the KRUK Group;
- Granting consent to provide security and surety over or encumber the Company's assets otherwise than as provided for in the budget, in excess of a cumulative amount equal to 10% of the Company's equity annually, unless parties to the transaction are only companies of the KRUK Group. Creating security or surety for loans and bonds provided for in the budget or for which the Supervisory Board has already given its consent does not require the Supervisory Board's consent;
- Granting consent for the Company to assume liabilities in a single transaction or a series of related transactions with a total value exceeding 5% of the Company's equity in a given financial year, not provided for in the budget and not arising in the ordinary course of the Company's business;
- Granting consent for the Company to acquire or subscribe for shares in other commercial companies and to join other businesses that are not members of the KRUK Group;
- Granting consent for the acquisition or disposal of the Company's assets with a value exceeding 15% of the Company's net book value as determined on the basis of the last audited financial statements, other than an acquisition or disposal provided for in the budget, except for any acquisition or disposal of assets from or to members 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 members of the KRUK Group are parties to the transaction;
- Granting consent to the Company or any of its subsidiaries to engage advisers and other third-party individuals as consultants, lawyers or agents if the resulting total annual cost to the Company, not provided for in the budget, would exceed PLN 500,000;
- Approving the rules of management stock option plans;
- Selecting an auditor to audit the Company's full-year financial statements, referred to in Art. 395 of the 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 any its subsidiaries with the Management or Supervisory Board members;
- Granting consent to making any gratuitous disposals or commitments by the Company or a subsidiary of the Company within the scope of the Company's business for an amount exceeding PLN 1m in one financial year, unless only members of the KRUK Group are parties to the transaction;
- Granting consent to making any gratuitous disposals or commitments by the Company or a subsidiary of the Company outside the scope of the Company's business for an amount exceeding PLN 200,000 in one financial year, unless only members 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 (excluding property purchased or sold as part of debt management processes) by the Company if the VAT-exclusive purchase price or the VAT-exclusive sale price is PLN 5,000,000 or more;

Supervisory Board meetings are convened by the Chairperson or, if absent, by the Deputy Chairperson of the Supervisory Board. Detailed rules for holding meetings are defined in the Rules of Procedure for the Supervisory Board.

Supervisory Board resolutions are passed with an absolute majority of votes of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairperson has the casting vote. For a resolution of the Supervisory Board to be valid, all members of the Supervisory Board must be invited to the meeting and at least half of them must be present at the meeting.

Supervisory Board members may vote on a resolution of the Supervisory Board in writing through another member of the Supervisory Board. Matters placed on the agenda during the meeting of the Supervisory Board may not be voted on in writing. Subject to the provisions of the Commercial Companies Code, the Supervisory Board may vote on resolutions by way of any of the following procedures: (a) written ballot, (b) using means of distance communication only, or (c) the mixed procedure, i.e. when some members of the Supervisory Board attend a Supervisory Board meeting in person and at least one member of the Supervisory Board participates in the meeting using means of distance communication, provided that all Supervisory Board members have been notified of the contents of the draft resolution.

5.6.3 Shares in the Company and in its related entities held by members of the Supervisory Board

For information on shares in the Company and in its related entities held by members of the Supervisory Board, see Section 5.3.1.3 – *Shares in the Company and in its related entities held by the Management and Supervisory Board members*.

5.6.4 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 28 presents the amounts of remuneration received by the Supervisory Board members from the Company and its subsidiaries for 2018 and 2017.

Table 2. Remuneration of the Supervisory Board members

Surname, first name	Remuneration from the Company	Remuneration from the Company
	for 2017	for 2018
	(PLN '000)	(PLN '000)
Beuch Katarzyna	98.91	98.91
Bieske Tomasz	98.91	98.91
Jastrzębski Arkadiusz	98.91	98.91
Kawalec Krzysztof	98.91	98.91
Koński Robert	98.91	98.91
Stępnia Piotr	197.83	197.83
Wancer Józef	98.91	98.91

Source: the Company.

The total remuneration received from the Company by the Supervisory Board members named above for 2018 amounted to PLN 791.29 thousand.

In 2018, the Company paid additional benefits of PLN 15.18 thousand to members of the Supervisory Board. Krzysztof Kawalec, a member of the Supervisory Board, received from Kruk TFI S.A., a subsidiary, remuneration of PLN 24 thousand for his service on the Supervisory Board of Kruk TFI S.A.

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.

5.6.5 Supervisory Board Committees

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

The Supervisory Board appoints the Audit Committee from among its members. The Audit Committee consists of at least three members. The majority of the members, including its chairperson, should be independent. The Audit Committee should include at least one member with knowledge and skills in accounting or auditing. Members of the Audit Committee should have knowledge of and skills relevant to the industry in which the Company operates.

All members of the Audit Committee meet the criteria of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight. Ms Katarzyna Beuch, who chairs the Audit Committee, and Mr Arkadiusz Jastrzębski, member of the Committee, also meet the independence criteria within the meaning of Best Practice for WSE Listed Companies 2016, as such criteria are specified in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. All members of the Audit Committee have knowledge and skills in accounting or auditing as well as knowledge of and skills relevant to the industry in which the Company operates, which they gathered by way of education or professional experience.

Ms Katarzyna Beuch graduated from the Faculty of Management and Computer Science of the Wrocław University of Economics. She also completed a postgraduate USAID programme on asset and liability management and banking risk at the Warsaw Institute of Banking. She started her professional career in 1992 at the Assets and Liabilities Management Department of Bank Zachodni S.A. of Wrocław. In 1996–2006, she worked at the Audit Department of Ernst & Young Audit sp. z o.o., where she was responsible for auditing financial statements, due diligence projects and accountancy consulting at financial institutions, such as banks, leasing and insurance companies, pension and investment funds, and non-financial enterprises. From 2006 to 2012, she served as a member of the Management Board and CFO at Getin Holding S.A. She was Head of the Accounting Department at Santander Consumer Bank. In 2016–2018, she held the position of Chief Executive Officer for Controlling and Economic Analyses at KGHM Polska Miedź S.A. She has had ACCA qualification since 2000 (and FCCA professional title since 2005). She is the author of publications on the application of International Financial Reporting Standards. She has sat on the Supervisory Board of KRUK S.A. since 2013.

Mr Arkadiusz Orlin Jastrzębski graduated from the Faculty of Finance and Banking at the Warsaw School of Economics (SGH) in 1997. He also completed doctoral studies in competitiveness at the Global Economy College of the Warsaw School of Economics. He is a licensed investment adviser (PFSA's licence No. 14) and a Chartered Financial Analyst. He has extensive professional experience, including from working at international institutions. Since 1995, he has held positions with investment banks (West Merchant Bank, London), investment firms (Raiffeisen Poland, NFI), private equity funds (Innova Capital Central Europe), venture capital funds and consulting firms (Hexagon Capital Polska); he also served on supervisory boards of listed companies, including Kruk S.A., Polenergia S.A., Atlanta Poland S.A., Forte S.A. and Koelner S.A. Since 2016, he has been President of the Management Board of PayTel S.A. (National Payment Institution), a member of the Portuguese SIBS Group. His experience includes investments on the capital and real estate markets, strategic and operational management, corporate restructuring and corporate supervision. Since 2013, he has been a member of the Supervisory Board of KRUK S.A.

Mr Piotr Stępniaś graduated from Guelph University, Canada as BA (majoring in Economics and in Management); ESC Rouen, France; Purdue University, U.S., as EMBA and Purdue University, U.S., as MSM. Since 2008, he has served as a member of the Supervisory Board of Kruk S.A. He has extensive professional experience: in 2001–2004 he was Vice President of LUKAS Bank, where he was responsible for retail banking; in 2005–2008 he served as President of the Management Board of Getin Holding S.A., in charge of analysis, financial auditing of investment projects and supervision over portfolio companies consolidated within the group. Since 2011, he has been a member of the Audit Committee at KRUK S.A.; since 2014, a member of the Audit Committee at Nest Bank S.A.; since 2015, a member of the Audit Committee at Magellan S.A. and Skarbiec Holding S.A.; since 2017, Chairman of the Audit Committee at Skarbiec TFI S.A., Grupa Kęty S.A., ATM Grupa S.A. and Asseco Business Solutions S.A.

The Audit Committee's responsibilities include in particular:

- 1) monitoring of:
 - a) financial reporting processes;
 - b) effectiveness of internal control systems and risk management systems as well as of internal audit, including financial reporting;
 - c) performance of financial audit, in particular an audit conducted by the audit firm, taking into account all recommendations and findings of the Audit Oversight Commission resulting from audits carried out at the audit firm;
- 2) controlling and monitoring of the independence of the qualified auditor and the audit firm, in particular when the audit firm provides services other than the audit of financial statements;
- 3) informing the Supervisory Board about the results of the audit and explaining how the audit has contributed to the integrity of financial reporting in a public-interest entity, and what was the role of the Audit Committee in the audit process;
- 4) assessing the independence of the qualified auditor and giving consent to the auditor's provision of permitted non-audit services to a public-interest entity;
- 5) developing a policy for selecting an audit firm to conduct the audit;
- 6) developing a policy for providing permitted non-audit services by the audit firm carrying out the audit, entities related to the audit firm or a member of the audit firm's network;
- 7) determining the procedure for selecting an audit firm by a public-interest entity;
- 8) presenting to the Supervisory Board the recommendation referred to in Art. 16.2 of Regulation No. 537/2014, in accordance with the policies referred to in items 5 and 6 above;
- 9) submitting recommendations aimed at ensuring the integrity of the financial reporting process in a public-interest entity.

In the period January 1st–December 31st 2018, the Audit Committee consisted of:

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

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

Apart from statutory duties, in 2018 the Audit Committee dealt in particular with:

- Summarising the results of the audit of the 2017 full-year report and setting the rules of audit of the financial statements for 2017;
- Results of the review of the interim financial statements;
- Analysis and evaluation of the internal control and internal audit system operating in the Company;
- Approval of the auditor's performance of non-audit services;
- Review of the debt portfolio valuation process and impact of planned legislative changes on debt portfolio valuation;
- Review and summary of asset reorganisation at the Group;
- Tax management at the Group;
- Currency and interest rate risk management at the Group, updating of the Currency Risk Management Policy;
- Review of the internal liquidity management policy at the Company and the Group.
- Approval of the auditor's performance of non-audit services;
- Review of the debt portfolio valuation process and impact of planned legislative changes on debt portfolio valuation;
- Review and summary of asset reorganisation at the Group;

- Tax management at the Group;
- Currency and interest rate risk management at the Group, updating of the Currency Risk Management Policy;
- Review of the internal liquidity management policy at the Company and the Group.
- In line with KRUK S.A.'s policy for the provision of permitted non-audit services by the auditing firm carrying out the audit, entities related to the auditing firm or a member of the auditing firm's network, permitted non-audit services provided for all members of the KRUK Group are monitored and assessed for independence. In 2018, such services cost PLN 190 thousand. All of them were pre-approved by the Audit Committee, in accordance with relevant proposal submitted to the Committee.

Members of the Audit Committee performed their duties during the Committee's meetings and the Supervisory Board's meetings. In 2018, the Committee held four meetings. The Audit Committee's meetings were also held in the form of teleconferences.

Remuneration and Appointment Committee

The Supervisory Board appoints members of the Remuneration and Appointment Committee from among its members. The Remuneration and Appointment Committee is composed of at least three members, including at least one member with knowledge and experience in the area of remuneration policy. The majority of the Remuneration and Appointment Committee members should be independent members of the Supervisory Board.

All Members of the Remuneration and Appointment Committee meet the criteria of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight. Three members of the Remuneration and Appointment Committee: Mr Arkadiusz Jastrzębski, Mr Robert Koński and Mr Józef Wancer, also meet the independence criteria within the meaning of Best Practice for WSE Listed Companies 2016, as such criteria are specified in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

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, knowledge and experience of the individual Management Board members to the Supervisory Board.

In the period January 1st–December 31st 2018, the Remuneration and Appointment Committee consisted of:

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

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

In 2018, the tasks of the Committee included issuing opinions on changes to the list of persons eligible to participate in the Management Stock Option Plan for 2015–2019.

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

The Supervisory Board appoints members of the Finance and Budget Committee from among its members. Pursuant to the Rules of Procedure for the Supervisory Board, the Finance and Budget Committee consists of two to four members.

In the period January 1st–December 31st 2018, the Finance and Budget Committee consisted of:

- Tomasz Bieske – Chairman of the Finance and Budget Committee,
- Krzysztof Kawalec – Member of the Finance and Budget Committee,
- Piotr Stępnia – Member of the Finance and Budget Committee.

By the issue date 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 condition,
- 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 2018, 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.

Policy and procedure for selecting an auditor of financial statements of the KRUK Group, and Policy for the provision of non-audit services by an auditing firm.

The Company has in place the following documents: Policy for selecting an auditor of financial statements of the KRUK Group, Procedure for selecting an auditor of financial statements of the KRUK Group, and Policy for the provision of permitted non-audit services by an auditing firm carrying out the audit, entities related to the auditing firm and a member of the auditing firm's network.

All these documents were drafted with the support of Audit Committee members and adopted by way of Management Board resolutions, following their approval by the Supervisory Board.

Key points of the Policy for selecting an auditor of the financial statements of the KRUK Group:

1. An auditor of the financial statements is selected by the Supervisory Board acting upon recommendations from the Audit Committee. Appointment of an auditor by the Group companies also requires approval from the Audit Committee.
2. The selection process is independent and does not exclude any qualified auditors and auditing firms qualified to audit financial statements from participating in the tender procedure.
3. Evaluation criteria for audit proposals are to be transparent, and the scope of information about each company covered by a request for proposals must be sufficient to reliably assess the amount of work required to be performed by the firm of auditors.
4. The following must be taken into account by the Audit Committee and the Supervisory Board when, respectively, preparing recommendations for the Supervisory Board and selecting an auditor:
 - a. the Auditor's fulfilment of the independence criteria with respect to all Group members whose financial statements are to be audited and reviewed
 - b. the ability to provide a full range of services (statutory audit, review of the consolidation package and review of the financial statements of Group companies in Poland and abroad)
 - c. the ability to perform the audit on the dates specified by the Parent
 - d. experience in the auditing of international groups (experience in partnering with foreign auditors)
 - e. experience in the auditing of securitisation funds
 - f. experience in the auditing of public-interest entities
 - g. experience in the auditing of companies operating in the same industry as the KRUK Group
 - h. professional qualifications and experience of the auditor and other persons directly involved in the audit
 - i. the price proposed for the audit
 - j. reputation of the entity qualified to perform the audit
5. The auditor is selected for a period not shorter than two years and not longer than five years, provided that the term of the first agreement with the auditor is no less than two years, with an option to extend it for another period of at least two years. Upon expiry of the maximum period of cooperation, neither the auditor nor any member of its network may engage in the auditing of the financial statements for another four years. In special circumstances, if a KRUK Group company is unable to change its auditor, the Audit Committee may, despite the expiry of the maximum period of cooperation, give its consent to extending the period of cooperation with the existing auditor.

The key assumption underlying the Policy for procurement of non-audit services from the auditor is to ensure that the independence of the Group's auditor is not affected by any actual or potential conflict of interest, business relationship or any other direct or indirect relationship between the Group companies and the auditing firm, audit team members and members of the auditing firm's network. The KRUK Group does not engage the Group's auditor in the procurement of non-audit services if there is a risk of self-control, self-interest, promotion of a Group company's interests, familiarity or intimidation caused by a financial, personal, business, employment or other relationship between a Group member and the auditor, the auditing firm or a member of the auditing firm's network, as a result of which an objective, reasonable and informed third party would conclude that the auditor's or auditing firm's independence is compromised.

The Policy contains a list of permitted non-audit services that may be performed by the existing auditor, as well as a list of prohibited services.

Once the Audit Committee's approval has been received, the KRUK Group may cooperate with the auditor in the provision of other services, listed below, to the extent not related to the Company's tax policy:

- services performed in connection with the prospectus of an audited entity, carried out in accordance with the national standard for related services and consisting in carrying out agreed procedures:
 - conducting due diligence procedures with respect to the entity's economic and financial standing;
 - issuing comfort letters;
- assurance services with regard to pro forma financial information, profit forecasts or estimates, included in the prospectus of the audited entity;
- audit of historical financial information to be included in the prospectus, as referred to in Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;
- verification of consolidation packages;
- confirmation of compliance with covenants under credit facility agreements based on the analysis of financial information sourced from the financial statements audited by the auditing firm;
- assurance services with regard to reporting on corporate governance, risk management and corporate social responsibility;
- services consisting in the assessment of compliance of information disclosed by financial institutions and investment firms with the disclosure requirements concerning capital adequacy and variable remuneration components;
- assurance concerning financial statements or other financial information for regulatory authorities, the supervisory board or other supervisory body of the company or its owners, going beyond the scope of a statutory audit and designed to assist those authorities and bodies in fulfilling their statutory duties.

The following circumstances are taken by the Audit Committee into account when approving non-audit services:

- a) the Committee considers whether these services have a material effect on the audited financial statements;
- b) it ensures that the estimation of the effect on the audited financial statements is documented; and
- c) it considers whether the services do not affect the auditor's independence.

In line with the above Policy, in 2018 non-audit services provided by the auditor and approved by the Audit Committee related to:

- auditing of consolidation packages,
- confirmation of the correctness of calculated ratios and the valuation of Maltese assets for the purposes of a syndicated credit facility agreement,
- confirmation of profit available for distribution as dividends to Luxembourg-based companies, confirmation of the correctness of the subsidiary Erif BIG S.A.'s database.

Appointment of an auditor

In 2018, the Company did not appoint an auditor. However, when selecting an auditor in 2017, the Audit Committee and the Company complied with the new regulations, and the Audit Committee's recommendation concerning the appointment of an auditing firm was prepared based on the Company's selection procedure consistent with the applicable criteria.

5.7 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 an annual or extraordinary meeting. The Annual General Meeting is each time convened by the Company's Management Board within six months after the end of each financial year, and its agenda includes:

- Consideration and approval of the Directors' s report on the Company's operations and financial statements for the previous financial year;
- Adopting a resolution on the distribution of profit or coverage of loss;
- Granting discharge to the members of the Company's governing bodies in respect of performance of their duties.

An Extraordinary General Meeting is convened by the Management Board on its own initiative or at the request of shareholders representing at least a half of the share capital or a half of total voting rights in the Company, by the Supervisory Board if it considers it appropriate, or by shareholders authorised by the registry court pursuant to 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 certain matters be placed on its agenda. The request should be submitted to the Management Board in writing or in electronic form. The Extraordinary General Meeting should be convened within two weeks of the Management Board's receipt of the request.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the next General Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the meeting.

A shareholder or shareholders representing at least one-twentieth of the share capital may, before the date of the General Meeting, submit to the Company draft resolutions regarding matters included or intended to be included on the agenda of the General Meeting. During the General Meeting each shareholder may submit draft resolutions regarding matters placed on the agenda.

The General Meeting is convened by posting the GM notice on the Company's website and in the manner specified for publishing current information in accordance with the Act of July 29th 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies. The notice should be published at least 26 days before the date of the General Meeting.

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

Resolutions of the General Meeting are adopted by an absolute majority of votes unless applicable laws or the Articles of Association provide otherwise.

The powers and responsibilities of the General Meeting shall include:

- Consideration and approval of the Directors' s report on the Company's operations and financial statements for the previous financial year;
- Distribution of profit or coverage of loss;
- Granting discharge to members of the Management and Supervisory Boards in respect of their duties;
- Decisions concerning claims for redress of damage caused upon formation of the Company or when managing or supervising the Company;

- Sale or lease of, or creation of limited property rights in, the Company's business or of its organised part;
- Amendments to the Company's Articles of Association;
- Increase or reduction of the share capital;
- Merger, transformation and demerger of the Company;
- Dissolving the Company and opening liquidation proceedings with respect to the Company;
- Adopting the Rules of Procedure for the General Meeting and for the Supervisory Board;
- Consideration and resolution of proposals put forward by the Supervisory Board;
- Other matters reserved for the General Meeting under the Articles of Association or applicable laws.

The validity of resolutions of the General Meeting regarding a significant change in the Company's business profile does not require that the shares held by shareholders who oppose such change be bought back if such resolutions are adopted by the majority of two thirds of votes in the presence of persons representing at least a half of the share capital.

5.8 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 amendments to the Company's Articles of Association requires a majority of three quarters of votes.

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

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

The Company has implemented suitable and effective internal control, risk management and compliance systems as well as the internal audit function. The Company has in place an effective internal control system, which ensures safe operations in compliance with applicable laws, adopted strategy and internal procedures. The system consists of:

1. Operational risk management system
2. Investment and credit risk management system
3. Compliance system (oversight of compliance with applicable laws and regulations)
4. Information security system
5. Internal audit system

The internal control system is designed to support decision-making processes by ensuring operational efficiency, reliability of financial reporting, and compliance with applicable laws and regulations as well as internal policies.

5.9 The Company's Diversity Policy

The Company's Diversity Policy

The Company and the Group have in place a Diversity Policy, adopted by a resolution of the Company's Management Board on December 8th 2015. Its purpose is to support a diverse, multi-cultural workplace by ensuring equal access to the organisation, guaranteeing equal opportunities for promotion and professional development for each employee regardless of their gender, age, disability, health condition, race, nationality, religion, beliefs, sexual orientation, family status, lifestyle or any other criterion that could cause an individual to be treated less favourably than others. The KRUK Group is a signatory of the Diversity Charter and implements its principles regarding diversity management and equal treatment within the organisation. Under the Diversity Policy, each employee is obliged to respect other employees' right to privacy, must not interfere with their personal affairs, and must accept existing differences.

KRUK S.A. operates an Internal Mediation Policy to prevent discrimination or bullying in the workplace. The Group's objective is to implement the Internal Mediation Policy across the Group. To detect any instances of discrimination or bullying, the Group undertakes employee satisfaction surveys at least once every two years. The Group ensures equal treatment for all candidates during the recruitment process by introducing recruitment standards and building teams that are diverse in terms of gender, age, experience, lifestyle, etc. The Group ensures equal promotion opportunities and pay ranges for each employee within a given area, as well as equal access to knowledge and qualification improvement by offering an open range of training experience with equal participation rules for all employees in individual posts. Particular importance is attached by the Group to enabling its employees to maintain a work-life balance by ensuring transparent work-time settlement rules and facilitating return to work after maternity leave.

6 NON-FINANCIAL INFORMATION

Non-financial information in the form of a statement has been compiled in accordance with the GRI G4 Standards (GRI), in the core option, using selected additional indicators. As a result, references are possible between the data presented here and the non-financial information presented in last year's statement. [G4-32]

The statement includes data on the KRUK Group for the period from January 1st 2018 to December 31st 2018, and is an integral part of the Directors' Report on the operations of the KRUK Group in the previous year. [G4-28]

This non-financial report has been published for the second time. [G4-22][G4-23][G4-29]

The Company's non-financial information will be published on an annual basis. [G4-30]

Contact person in matters relating to the Report: Agnieszka Salach, agnieszka.salach@kruksa.pl. [G4-31]

Organisation's values

KRUK S.A.'s mission statement

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 and legal norms requiring that everyone must fulfil their obligations.

The Company (just as the entire KRUK Group) complies in its operations with applicable laws, follows industry standards (including the Code of Best Practice of the Conference of Financial Companies in Poland), social standards (including the Universal Declaration of Human Rights adopted to protect dignity and ensure fair treatment of every person regardless of their sex, language, race, religion, political views, nationality etc.), as well as its internal rules, instructions and procedures. All those regulations are binding on each of the Company's employees, regardless of their type of employment and position. Each newly hired person is acquainted with the principles of ethics and values during induction training. Core values of the KRUK Group as a whole, including KRUK S.A., are mutual respect, cooperation, integrity, responsibility and transparency.

Each employee has access to relevant rules, instructions and procedures, which are available on a designated intranet site. Additionally, the Compliance Department was established in 2016; it provides assistance in such issues as interpreting the applicable laws and implementing changes in our processes to ensure compliance with our core values. This makes it easier to adapt our operations to the evolving legal framework. Furthermore, in 2018 the Compliance Committee was appointed to ensure adherence to the standards and procedures in place at the Company. For more information on the Compliance Committee's tasks, see below in this section. KRUK S.A.'s core values apply across the KRUK Group, not only in the relations between all its employees, but also in contacts with customers (debtors), trading partners and suppliers.

Documents that help us maintain our core values

The core values and organisational culture relating to the Group are a valuable part of our organisation. To ensure compliance with those values and principles, KRUK S.A. has drawn up the following documents:

- The *Internal Mediation Policy*, which fosters positive relations between employees, prevents conflicts and workplace bullying. Any employee may submit proposals to the Mediation Committee.
- The *Gift Policy*, which defines how to act when receiving benefits from our trading partners.
- The *Anti-Corruption Policy*, which helps prevent corruption and misconduct.

Table 29. Core values and ethical principles in place across the KRUK Group, including at KRUK S.A.

Client	Trading partner	Shareholder	Employees
<ul style="list-style-type: none"> • We treat debtors with respect. • We help people escape the debt trap. • We ensure personal data protection. • We simplify the often complex and incomprehensible legal jargon to make it understandable to all our clients. 	<ul style="list-style-type: none"> • We do not make promises we cannot keep. • We approach our trading partners' needs on a case-by-case basis. • We respect our competitors. • We maintain the confidentiality of information. • We avoid conflicts of interest. • We follow the principles of transparency and integrity in our business. • We strive to build long-term and lasting relationships. 	<p>In communication with shareholders, the following are critical to us:</p> <ul style="list-style-type: none"> • Truth • Complete information • Continuity • Speed of operation • Clarity 	<ul style="list-style-type: none"> • We respect all our employees' opinions. • We all take care to protect the Company's reputation. • We build good rapport within the Group and listen to all our employees. • We help each other. • We are tolerant. • We build relations on mutual respect and partnership. • We give our employees opportunities to raise their professional qualifications.

Source: the Company.

Organisational culture at KRUK S.A.

In 2018, KRUK S.A. carried out a second organisational culture survey based on the cultural dimensions defined by Geert Hofstede. The first such survey was undertaken in 2016, and covered 1,541 employees of the KRUK Group, including 236 managers. In 2018, the questionnaire was filled in by 2,070 Group employees (including 1,205 women and 865 men, of whom 250 were managerial staff). At KRUK S.A., 1,025 employees completed the questionnaire.

All of them participated in the survey on a voluntary basis. All our employees (in all countries where we operate as the KRUK Group) received the questionnaire by email.

The survey confirmed once again that the organisational culture across the KRUK Group, including at KRUK S.A., is robust and clearly defined, and elicits strong identification with the organisation. It is shared by all employees regardless of the position held or country of operation. Each employee has access to publications showing cultural differences between the countries where we operate. This knowledge is particularly important in exchanging experiences between KRUK S.A.'s employees and the personnel of our foreign companies operating in the credit management industry.

The organisational culture at KRUK S.A. is expressed mainly through partnership, cooperation and freedom of expression, which has not changed since 2016.

This means that our employees:

- build partnership-based relations regardless of their job title or position at the company, which creates room for open discussions, trust and cooperation;
- like cooperating and supporting one another: team's result is more important than individual success;
- value friendly working atmosphere, which is just as important as business objectives;
- quickly respond to changes, and adopt a long-term perspective in their work;

- respect the emotions and opinions of others – they allow free expression of emotions and opinions, approach them with understanding, and foster interpersonal relations.

The survey also included an open-question survey. Employees could express their opinion on the work environment, among other things. They were asked what could be changed in the organisation to make the working environment more comfortable and thus improve their productivity.

Based on the findings of our survey, in 2018 we took a number of follow-up measures, some of which are listed below.

- On July 1st 2018, we implemented an upgraded system of employee non-pay benefits. Under the new programme, our employees receive points on a monthly basis, which can be redeemed in the My Benefit system.
- Starting from July 1st 2018, every employee can learn English using a dedicated online platform.
- We continued the development of an employee suggestion scheme, under which employees can submit their ideas and proposals on how to optimise and improve working conditions at the KRUK Group.

The table below presents the proposals submitted and implemented in 2018. As the KRUK Group grows, the number of ideas and suggestions is also growing. The Group companies review and, to the extent possible, implement the submitted ideas.

Table 30. Employee suggestions submitted and implemented in 2018

<i>2018</i>	<i>KRUK S.A.</i>
Number of suggestions	1291
Number of implemented suggestions	208

KRUK S.A. is a signatory of the Diversity Charter, An international initiative supported by the European Commission and implemented in 19 EU countries. The Charter is a commitment made by organisations which prohibit discrimination in the workplace and which create and promote diversity. It also means that the signatory is ready to engage all its employees, trading partners and social stakeholders in those activities. An organisation which adopts the Diversity Charter strives to promote social cohesion and equality. All KRUK Group companies comply with the Diversity Charter in their operations, for instance in recruitment processes. [G4-15] [G4-16]

Legal and social standards

At KRUK S.A. and across the Group we ensure compliance with the code of ethics and legal standards that regulate the activities of debt management companies. We also adhere to social standards based on integrity, responsibility and mutual respect. Furthermore, we give opinions and comment on the relevant legal matters and amendments to legal acts relating to the development of the debt management market. We are involved in those activities as a member of non-profit organisations acting towards the development of that industry. These organisations represent, among others, the interests of the financial market in relations with the lawmakers, market regulators, public administration and public opinion. They also engage in promoting financial education of the general public.

The KRUK Group is a member of the following organisations:

- ACA International
- Asociácia Slovenských Inkasných Spoločností
- Asociace Inkasních Agentur
- Asociatia De Management Al Creantelor Comerciale
- Bundesverband Deutscher Inkasso-Unternehmen
- Bundesverband Credit Management

- Bundesvereinigung Kreditankauf Und Servicing
- Conference of Financial Companies in Poland
- Polish Association of Listed Companies
- PKPP Lewiatan (Polish Confederation of Polish Employers)

As a member of the Conference of Financial Companies in Poland, KRUK S.A. complies with the Code of Best Practice for the Businesses Associated in the Conference of Financial Companies in Poland, which can be found, among others, at:

http://www.kpf.pl/pliki/etyka/zasady_dobrych_praktyk_01.09.2017.pdf.

Every year, the Company undergoes an ethics audit by the Ethics Committee of the Polish Conference of Financial Companies, which inspects the Company's adherence to the Code of Best Practice. Following a successful audit, the Conference of Financial Companies grants an Ethics Audit Certificate for a given year, valid until March 31st of the next year.

At the time of preparation of this report, KRUK S.A. held a valid Ethics Audit Certificate for 2017, Which can be accessed at: https://pl.kruk.eu/media/content/certyfikaty/certyfikatkp_2.jpg.

The Company is still awaiting the results of the audit survey for 2018, which are expected by the end of Q1 2019.

In 2018, the Company was awarded the 'Ethical Company 2017' title by the *Puls Biznesu* daily and PwC. KRUK S.A., as a company listed on the Warsaw Stock Exchange, complies with the Code of Best Practice for WSE Listed Companies 2016.

Our clients incur debts for various reasons, which include unforeseen fortuitous events. If necessary, we provide them with psychological support, as we have partnered with a non-profit organisation which offers advice and assistance to debtors who struggle with depression or suicidal thoughts.

We have also established internal procedures to deal with situations where a client reports a threat to health or life. Our motivation was to take care of our clients who deal with numerous problems.

[G4-56]

Material aspects and indicators

During validation workshops attended also by the Company's management, we defined the final number of material aspects, which are, from the perspective of the Company's operations: our environmental, social, and economic impacts. They are described further in this report. These aspects have been largely defined through our dialogue with various stakeholders. Some of the tools used to maintain this dialogue include direct customer surveys gauging customers' satisfaction with their relationship with the KRUK Group, social surveys commissioned from external research agencies, and direct meetings with shareholders and journalists. [G4-33]

Material aspects include:

- With regard to economic indicators:
 - Economic performance
 - Market presence
 - Indirect economic impacts
 - Procurement practices
- With regard to environmental performance indicators:
 - Materials
 - Energy consumption
 - Emissions
- With regard to society performance indicators:
 - Employment

- Occupational health and safety
- Training and education
- Diversity and equal opportunities
- Non-discrimination
- Human rights grievance mechanisms
- Anti-corruption
- Compliance with regulations
- Product and service labelling
- Marketing communications
- Compliance with regulations concerning marketing communications

[G4-19] [G4-21] [G4-27]

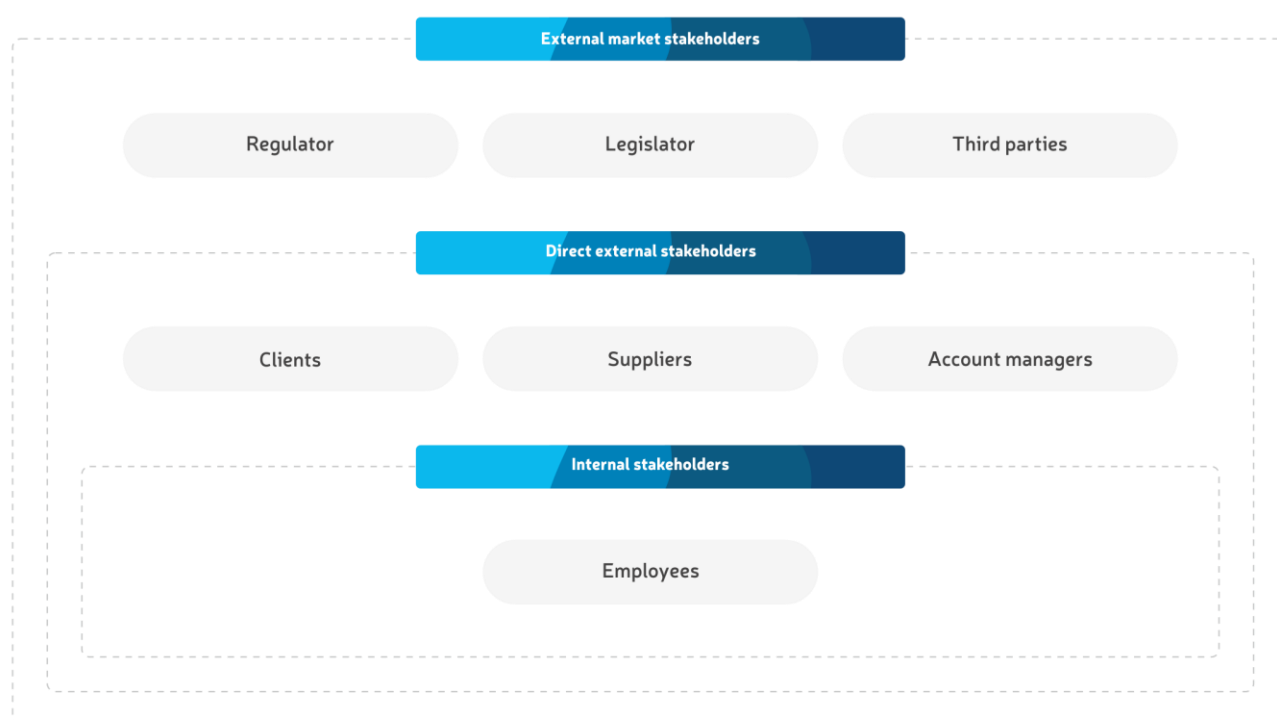
Material stakeholders

Based on our activities to date, we have identified the key groups of internal and external stakeholders. These groups can affect one another, both in terms of pursuit of our business strategy and corporate social responsibility. To prepare this Non-Financial Statement for 2018, KRUK S.A. has identified material economic, environmental, and social aspects. To this end, we organised meetings with internal stakeholders, including employees, managers and Management Board members. Moreover, we have analysed the issues and challenges faced by the debt management industry in Poland, which were discussed during a conference call by the working group (members of the Conference of Financial Companies in Poland) established on the initiative of the Conference of Financial Companies in Poland under the educational project 'Debt Collection? Everything Clear!'.

Following those meetings, our key external stakeholders were identified, including:

- clients (mainly debtors)
- trading partners
- shareholders
- suppliers
- competitors
- social organisations
- market regulators
- the media

Figure 31. Our stakeholder map



[G4-24]

The significance of stakeholder groups was verified based on:

- social surveys conducted at least once a year
- individual customer satisfaction surveys carried out on an ongoing basis
- trading partner satisfaction surveys carried out once a year

Table 32. Key stakeholders in the KRUK Group dialogue

Stakeholder	Form of dialogue	Frequency
Regulators and industry associations	Participation in issuing opinions on new regulations and acts of law (in working groups appointed when and as needed)	Ongoing
Competitor debt management companies	Participation in talks on how to improve the image of the entire debt management industry in Poland (in a working group set up by the Conference of Financial Companies in Poland) Participation in industry conferences in countries where we operate	Ongoing
Non-profit organisations	Participation in financial education events and charitable initiatives	As needed
General public	Social surveys regarding financial education, budget planning, financial behaviour, and attitudes to debt and saving	At least once a year
	Workshops and training	As needed
	Press materials, radio and TV advertising campaigns	As planned in communication strategy
Trading partners	Trading partner satisfaction survey	Once a year
Clients – debtors	Client satisfaction survey	Ongoing
	e-kruk.pl platform	Ongoing
	Face-to-face and telephone conversations with KRUK consultants	Ongoing
Suppliers	Face-to-face meetings, phone calls, emails	As needed
Employees	Employee Suggestion Scheme for employees to propose their ideas, e.g. for making improvements in the workplace	Ongoing

	An Employee Forum, with members elected by the Group employees in a secret ballot from among proposed candidates	Four meetings in calendar year
	Employee surveys, including a questionnaire surveying satisfaction with participation in various events organised by the KRUK Group	As needed
	Internal communication, including in-house competitions, invitation to various employee initiatives and charity projects including the <i>Szlachetna Paczka</i> (Noble Package) and <i>Talent Miłosierdzia</i> (Talent for Charity) campaigns	As needed
	Whistleblowing, i.e. the procedure of reporting irregularities using an anonymous form available on the Company's website at: https://pl.kruk.eu/zglos-naduzycie	As needed
	Whistleblowing to the Consultation and Mediation Team	As needed
	In-house events for employees	At least once a year
	Employee Assessment System	Since 2018, employees have been regularly assessing their colleagues on a yearly basis.
	Programme to support employees in difficult life situations, with full confidentiality guaranteed	As needed by employee
	Direct meetings with management staff	As needed

Source: the Company.

[G4-18] [G4-20]

In 2018, we identified and selected groups of external stakeholders and social aspects based on the following surveys:

- a public survey for debtors commissioned by the KRUK Group over the Ariadna online research panel; the survey covered about 400 debtors And was carried out using a web form (CAWI);
- a public survey 'How Poles Feel about Debt' conducted in cooperation with the WSB University of Wrocław Among 1,200 persons, of whom 50% were debtors; The survey was conducted in 2018 using the online survey method. It was an online survey.
- a satisfaction survey among KRUK S.A.'s trading partners, carried out in 2018 using questionnaires and in-depth interviews
- a satisfaction survey among KRUK S.A.'s customers, conducted through telephone interviews And including both open- and closed-ended questions; Over 21,000 customers participated in the project, up by more than 1,000 on our 2017 survey

[G4-25] [G4-26] [G4-27]

6.1 Category: Economic

KRUK S.A. is the leader of the debt management market in Poland. In accordance with its vision, the Company aspires to be one of the world's largest companies working with individuals facing the problem of excessive debt. We strive to achieve this objective step by step, by setting trends on the market and expanding our operations abroad. In our day-to-day work, we focus mainly on customers. With them in mind, KRUK has developed its amicable collection strategy, now being emulated by other debt collection companies. This model is now being transferred to other countries where we operate as the KRUK Group.

The amicable collection strategy enables KRUK's clients to spread the debt repayment into instalments in line with their individual needs, allowing them to restore their financial credibility and return to the financial market. That is why the surveys of our customers' and trading partners' needs, expectations and satisfaction are very important to our business.

6.1.1 Economic performance

Table 33. KRUK S.A.'s economic performance in 2018

The Company's economic performance is presented on a group-wide basis.

PLNm	2018	2017
Revenue	1,170	1,061
Operating expenses	(691)	(641)
Salaries, wages and employee benefits	(316)	(265)
Payments to providers of capital	(190)	(109)
Payments to government	(26)	(21)
Community investments	0	0
Economic value retained	262	291

Source: the Company.

Employee compensation

The Company makes every effort to provide its employees with comfortable working conditions and satisfying compensation. The employee compensation rules applied at KRUK S.A. are defined in the HR and Payroll Policy. They apply to all employees regardless of their gender, age, nationality or other differences.

Salaries of men and women in the same positions are on a par. Differences, if any, may result from a different scope of work performed. In the departments where the pay is significantly higher (such as the IT department), the majority of employees are men, while women are the majority of the Group's administrative units or call centres.

Table 34. Ratio of standard entry level salary at KRUK S.A. by gender compared to minimum pay in 2017 and 2018

Average salary compared with the minimum pay		
YEAR	2017	2018
women	214%	223%
men	281%	293%

Source: The Company.

[G4-EC5]

Uniform rules, principles and values apply to all employees at KRUK S.A. and other Group companies.
[G4-EC6]

6.1.2 Indirect economic impacts

Why is financial education so important?

The KRUK Group as a whole engages in various initiatives driven by the needs of both our employees and external stakeholders, mainly residents of countries where we operate.

Financial education is one of the most important needs of the public, which we have identified also in Poland.

Journalists are a group of external stakeholders who contribute to the promotion of financial education. According to various public surveys, mass media are the main source of financial knowledge for many people. That is why companies representing the debt management industry which are members of the Conference of Financial Companies in Poland have established a working group to carry out a joint project 'Debt Collection? Everything Clear!'. The project is designed to educate people on the laws and regulations governing debt recovery in Poland. The task of the working group is also to educate journalists who prepare press articles and programmes dedicated to debt management in Poland.

KRUK S.A. is involved in the project as one of its members. Together with other industry players, we are building a positive image of debt management companies in Poland. We know how important it is to clarify the evolving legal regulations governing the activities of companies like ours, And to this end we try to correct any potentially misleading information published in the media.

On behalf of the project's participants, the Conference of Financial Companies in Poland also prepares educational press materials, for instance on the stereotypes or myths surrounding the debt management industry.

This industry dialogue, which produced the 'Debt Collection? Everything Clear!' campaign, proves how important it is to carry out educational initiatives on finance and debt management business.

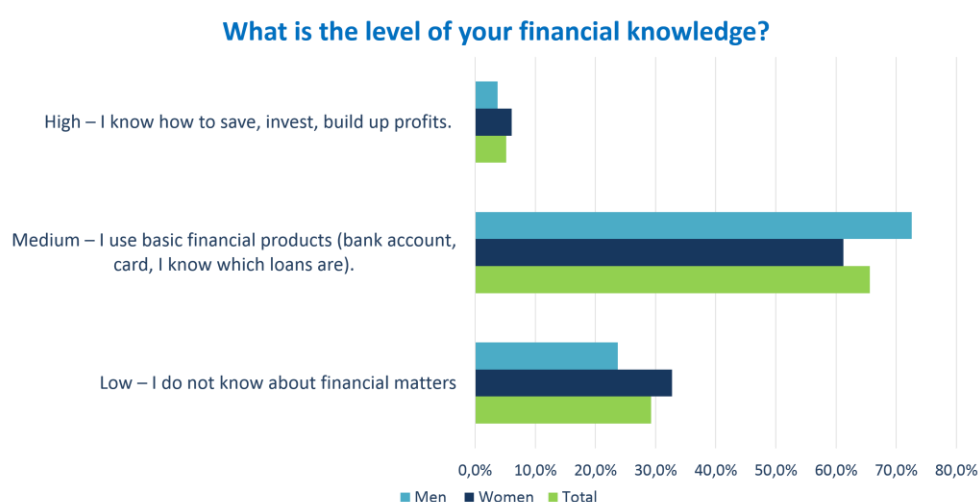
The project website can be found at: <http://wjs.kpf.pl/>.

Research into public knowledge on finance

Many years of public research carried out by the KRUK Group have shown that both financial literacy and financial education still require improvement. We engage in various CSR and educational projects to enhance the level of public financial knowledge.

Surveys carried out by the Group in the last four years have confirmed the validity of our CSR strategy. For example, in our public survey conducted over the Ariadna research panel in 2018, the majority of Poles believed that their financial knowledge was either low or average. This means that most of them use basic financial products and know how they work. Only a small percentage of respondents rated their financial literacy as high – namely, they knew how to save and make profit on investing their assets.

Financial knowledge self-assessment by Polish debtors



Survey commissioned by KRUK S.A. and carried out over the Ariadna online research panel on a target sample of debtors, July 2018

As demonstrated by the public surveys, in our CRS efforts we should focus on raising public awareness in the area of finance. Such initiatives are targeted at many social groups, including debtors, young people, trading partners, as well as institutions working directly with people in debt.

Analysis of sources of Poles' indebtedness

Lack of long-term household budget planning and control over ongoing expenditure can result in debts. In addition, there are fortuitous events that cannot be predicted, such as falling ill, an unexpected job loss, divorce or death of a close person. Such situations can also adversely affect the financial situation.

Presented below are all the answers to the question: “How did you fall into debt?”. It should be noted that each respondent could choose more than one answer.

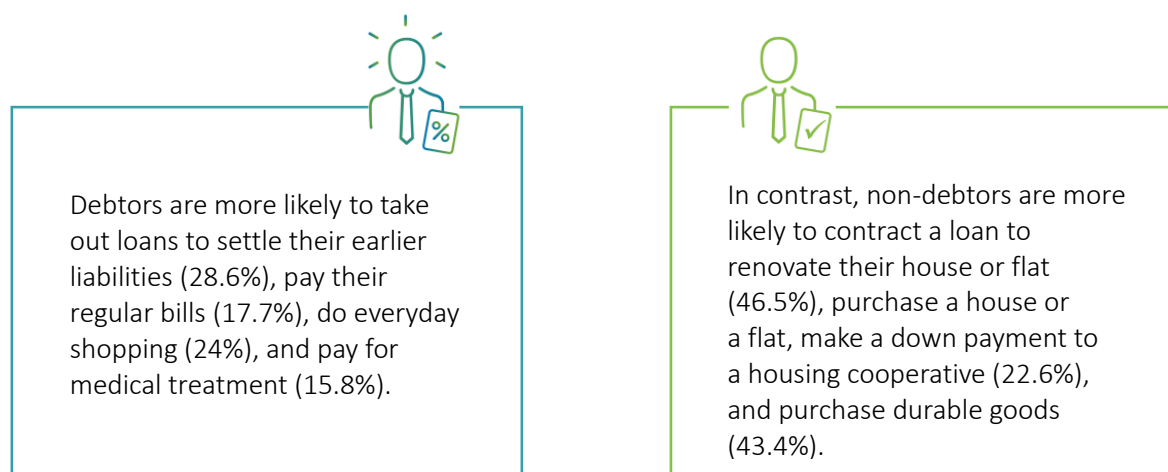
How did you fall into debt?										
I couldn't afford to buy the common necessities	I've lost my job	The instalments were too high and I was unable to repay them	I've spent too much	I had insufficient financial knowledge	I forgot to pay my instalments	I fell ill and my medicines and medical examinations are very expensive	I bought things I didn't need	One of my loved ones fell ill	I got divorced	Other
35,8%	32,7%	29,8%	16,3%	15,2%	12,0%	11,7%	11,5%	10,3%	7,4%	6,6%

Source: survey commissioned by KRUK S.A. and carried out over the Ariadna online research panel on a target sample of debtors. Period: July–August 2018, method: online interviews (CAWI).

Analysis of Poles' attitudes towards borrowing money

The ‘How Poles Feel about Debt’ survey conducted by KRUK S.A. in partnership with the WSB University of Wrocław has shown the Poles' general attitude to borrowing money. Its results are also a source of knowledge on the purposes for which people in debt borrow money compared with those who have never had any problems with timely repayment of their liabilities.

The most significant differences between indebted individuals and those who pay their liabilities as they fall due are as follows:



The worrying thing is the high percentage of debtors taking out loans to repay their earlier liabilities (close to 29% of the respondents), as this may mean that they have already fallen, or are about to fall, into a debt trap.

Therefore, our public surveys set the directions we follow in the area of corporate social responsibility.

The ‘LIVE DEBT-FREE’ course

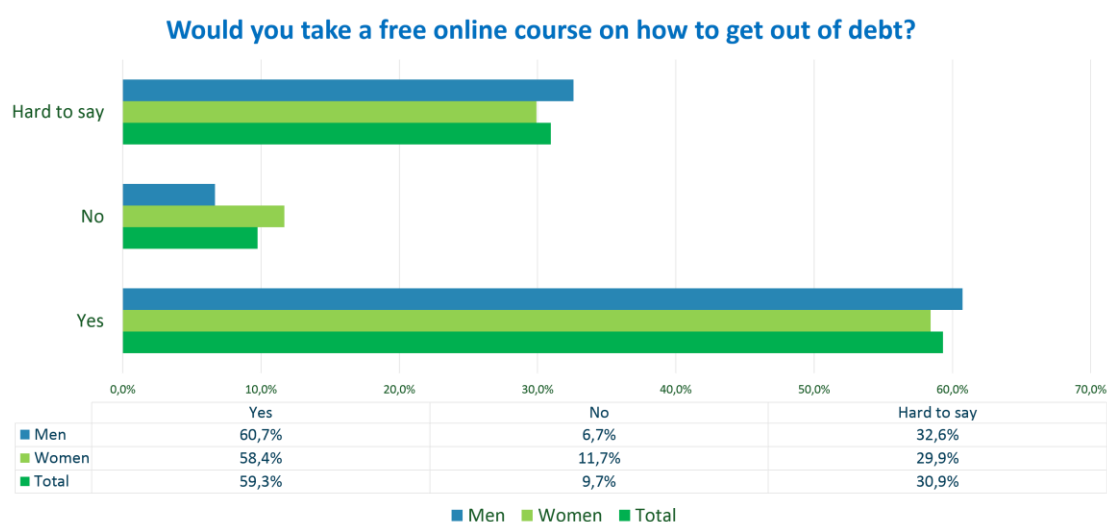
To support both debtors and those who would like to improve their household budget management skills, in 2018 KRUK S.A. decided to launch an **online course** on how to get out of debt, which is free and available to everyone.

‘LIVE DEBT-FREE’ was prepared in collaboration with Tomasz Jaroszek, a financial blogger, and is available at www.kurs.kruk.pl. It consists of 12 lessons on how to start repaying debts, manage household budgets, start saving, change financial habits and similar topics. Each lesson is a video recording, which the users can listen to or read as a transcript. In addition, the course offers numerous spreadsheets, exercises, articles, and tools to calculate the financial cushion, household budget, spending money, etc. The course is addressed not only to debtors, but to anyone who wants to manage their financials more efficiently. It is available with no time or other limitations. We hope that in this way we can help more people compared with traditional face-to-face training.

While working on the course contents, we used the survey based on the Ariadna research panel, where we asked debtors whether they would take a free course on how to get out of debt if they had a chance. The vast majority said such an initiative would be useful for them and specified the most problematic issues.

Presented below is data on persons who expressed their interest in taking the course.

Who wants to take part in the course?



Survey commissioned by KRUK S.A. and carried out over the Ariadna online research panel on a target sample of debtors, July 2018.

This solution allows us to educate more debtors and those who want to better manage their finances. In the past, we also organised workshops at Municipal Social Welfare Centres and Municipal Family Welfare Centres, as well as information points at job centres or railway stations in big cities. However, the reach of those initiatives was limited, due to constraints related to timing and the number of participants. Printed materials, such as tutorials, magazines, or children’s comic books, were also distributed only to a limited number of people. On the other hand, with the ‘LIVE DEBT-FREE’ project we can reach thousands of people over the Internet. Advantages for debtors include free access to extensive, well-structured, but understandable financial knowledge – how to prepare a debt repayment plan, communicate with the creditor, talk to the family about debt problems, start saving, earn extra cash or secure their financial future.

The course is advertised both on the Internet and through various marketing materials prepared by KRUK S.A. We perceive it as a tool to be built on a long-term basis and intend to develop it further by organising webinars on finance.

Each participant decides on their own when to do the next lesson or exercise. We do not verify their knowledge, and we do not organise final tests or examinations. In fact, the only metric relevant for us is the number of participants who have signed up.

The course was launched on November 13th 2018 and had 374 registered participants as at January 4th 2019. The figure far exceeded our initial expectations and targets.

To compare, in 2017, the 'Small Step, Giant Chance' workshops attracted a total of 241 participants: employees of social and family welfare centres and people struggling with debt.

'LIVE DEBT-FREE' may also be a useful tool for employees of Municipal Social Welfare Centres and Municipal Family Welfare Centres, as they can recommend the course to people under their care.

Day without Debts

In 2018, the 10th edition of the Day without Debts, an event initiated by KRUK S.A. in 2008, was held in Poland. The project is meant to draw attention of the public to how important it is to manage one's financials efficiently, plan spending responsibly, and repay debts. We educate not only adults, but also young people and children, and we seek to involve mass media in the event as well.

The Day without Debts also includes numerous educational and marketing initiatives, aligned with the current trends. In this way, we want to draw public attention not only to the problem of indebtedness, but also to evolving financial habits and household budget planning.

In Poland, the Day without Debts involved an awareness-raising radio campaign prepared in partnership with the RMF Group. We sponsored the 'Economy Club' programme, aired between November 13th and November 16th 2018, in which our experts shared their financial knowledge with radio listeners. The campaign reached the audience of over 1.9 million, aged from 25 to 65 years.

In partnership with the WSB University of Wrocław, we conducted the 'How Poles Feel about Debt' survey, in order to identify differences in the behaviour and financial knowledge between people in debt and persons who have never had problems with timely repayment of their liabilities. The results were presented at a press conference held on the Day without Debts.

Two packages of media materials were also published through the Newseria agency, in which experts presented the reasons for falling into debt and the habits that lead to such situations. They also presented an online course as a tool which can help to manage one's finances and get out of debt. Information contained in those two packages has been published more than 450 times on various websites, in newspapers/magazine and on local radio stations.

We conducted similar public surveys using the same questionnaire in Romania, the Czech Republic, Slovakia, Italy, and Spain. Their results were presented to journalists in the respective countries and published in local media.

In 2018 both initiatives, i.e. the 'Day without Debts' and the 'Small Step, Giant Chance' workshops held in 2017, were described in the 'Responsible Business in Poland. Best Practice 2017' report, prepared on the initiative of the Responsible Business Forum to promote CSR activities of Polish companies. The projects were included in the Consumer Issues category as their principal focus is to educate consumers and raise their awareness of their rights and obligations.

Conferences and market events

In 2018, KRUK S.A. was actively involved in trade conferences and events. In this way we can influence the development of the debt management market and the business information market in Poland. Knowledge and experience sharing helps the Group tailor its services not only to the needs of individual clients, but also its trading partners and the changing market landscape.

2018 was an exceptional year for our Company, as KRUK S.A. celebrated its 20th anniversary. It was an opportunity to meet with existing trading partners and representatives of various regional organisations, and to thank them for the cooperation so far. In addition, to keep in touch with trading partners and market participants, our representatives took part in trade conferences both in Poland and abroad, either as expert partners or as participants.

Presented below are the most important conferences attended by KRUK S.A. in 2018

KRUK was a partner of and speaker at the 10th Lean Management Conference, an international event devoted to global trends in the implementation of lean management at various organisations. For the representatives of our Company it was an opportunity to share best practices and experience in managing corporate culture conducive to deployment of the lean management philosophy.

KRUK S.A. was also a partner of the 3rd edition of 'Congress 590', which was attended by many figures from the world of politics and business, including representatives of central and local government bodies, public opinion leaders, entrepreneurs and scientists. Discussions at the congress revolved mainly around the future of the Polish economy.

We also sponsored and participated in the 12th 'Insurance and the Challenges of the 21st Century' International Conference in Rydzyna, and the 4th Debt Enforcement Process Management Forum in Wrocław.

Furthermore, KRUK S.A. organised a number of events dedicated to the insurance and banking sectors, with which we actively cooperate.

Charitable sponsorship

Charitable initiatives have a special place on the Company's CSR agenda. Given the wide range of social needs, the KRUK Group has in place a Charitable Sponsorship Policy, which precisely defines the scope of assistance and the nature of initiatives we choose to support.

Our goal is to provide unconditional aid and assistance. Moreover, we follow the motto 'Not only your finances in good shape', which means is that in addition to financial matters equal significance is attached by KRUK S.A. to health, well-being and physical fitness. If these aspects of life are taken care of, it is easier to face various difficulties, even if they involve getting out of debt. This is why, apart from our commitment to education, we promote pro-active and healthy lifestyles and provide support to children.

KRUK S.A. pursues this objective in all markets where we are present.

In 2018, for the sixth time, KRUK S.A. was the main sponsor of the charitable Business Run in Wrocław. The proceeds were donated for the treatment of two beneficiaries of the Everest Foundation, the event's organiser.

Apart from the charitable assistance, the idea behind the Business Run is to promote healthy rivalry, team cooperation and physical activity among employees of, inter alia, Lower Silesian companies: both small enterprises and international corporations. As part of the sponsorship package, we paid participation fees for 150 employees of the KRUK Group. It was also an opportunity to build good relations between the employees. A total of 6,500 people, representing companies from the Wrocław region, took part in the event, contributing PLN 180,130 to the Foundation's charitable initiatives.

We also joined the third edition of the Talent for Charity (Talent Miłosierdzia) social initiative for entrepreneurs, organised by the Caritas organisation of Wrocław. As part of the campaign, employees of various companies collected food products for those in need. KRUK managed to collect over 345 kg of food and 32 kg of cleaning supplies.

We try to offer help in many ways. We supported a number of families as part of the Noble Package (Szlachetna Paczka) project, and one beneficiary of the Academy of the Future (Akademia Przyszłości), who received a 'success package', that is co-financing of the future carrier and development. We have selected a boy who struggles with adaptation problems at school and plans to work in the debt collection industry in the future.

KRUK was also a partner in the 'Finansomania' Financial Knowledge Competition organised by the Faculty of Economics of the Poznań University of Economics, with the aim of disseminating general knowledge on finance. The final gala event took place in Poznań.

Moreover, in 2018 KRUK S.A. sponsored an Easter breakfast for patients of the Cape of Hope, a supra-regional paediatric oncology centre in Wrocław, where treatment is given to the youngest oncological patients living in the Lower Silesia and other regions. With our support, the centre organised an Easter meeting and purchased small gifts for its patients.

In addition, as part of its charity initiatives, the KRUK Group:

- co-financed the participation of the company football team in the fourth-league Śląsk Wrocław PRO competition; KRUK S.A. came in second and won silver medals, thus advancing the third league of Śląsk Wrocław PRO;
- actively participated in blood donation campaigns held in partnership with regional blood donation and hemotherapy centres in Szczawno-Zdrój and in Wrocław. In 2017, we donated over 40 litres of blood. In 2018, our employees donated nearly the same amount.

[G4-EC7]

6.1.3 Procurement practices

As part of our operations, we have partnered with a number of local suppliers of goods and services which we need to operate efficiently in many areas of our business, including IT hardware, software and services, office equipment and supplies, fleet maintenance, marketing services, etc.

[G4-12]

Number of procurement processes carried out at the KRUK Group

In 2018, 122 procurement procedures were completed across the KRUK Group, 19 more than a year earlier. Of these, approximately 90% were conducted for KRUK S.A.

Table 34. Number of suppliers at KRUK S.A. in 2017 and 2018 and percentage of foreign suppliers providing services to KRUK S.A.

Country	Total number of suppliers	Percentage share of foreign suppliers in the local market	Total number of suppliers	Percentage share of foreign suppliers in the local market
	2017	2017	2018	2018
Poland	1071	1%	1103	3%

We mainly use services of local suppliers, representing an average of 90% of our supplier base.

Collaboration with external suppliers

KRUK cooperates with external suppliers of services and goods based on the following scheme:

1. selection of the supplier of goods or services in a procurement process is based on: pre-defined criteria and necessary requirements, a request for proposals, comparison and evaluation of bids, negotiations, selection of the best bid and qualification of the recommended supplier,
2. purchase order is approved in keeping with the Group's expenditure approval processes,
3. a contract or order is signed,
4. contract is performed or order is sent to the supplier,
5. delivery is collected,
6. invoice is accepted,
7. payment is approved,
8. payment is made,
9. suppliers are assessed on an annual basis.

At our Polish companies, the procurement processes and cooperation with suppliers are governed by the Procurement Policy and the Procurement Policy Implementation Instruction.

The Procurement Policy sets out the rules to be followed in the procurement processes. It contains guidelines on how to incur obligations for and on behalf of the KRUK Group companies, select suppliers and maintain the optimum relation between the price and quality of purchased goods or services, and how to meet commercial terms and conditions, so as to ensure that those activities are consistent with our values, mission, vision and strategic objectives.

In relations with suppliers, across the KRUK Group we abide by the following principles:

- maintaining business confidentiality,
- cooperation and communication,
- preventing any forms of corruption,
- equal treatment,
- avoiding conflicts of interest.

Integrity and mutual respect play an important role also in cooperation with suppliers. To ensure clarity and transparency of those principles, both KRUK S.A. and other KRUK Group companies have in place a Misconduct Prevention Policy, Conflict of Interests Management Policy, and a Gift Policy. Suppliers participating in our procurement processes held in Poland are required to become familiar with the 'Standards of Ethical Conduct for Suppliers in Relations with Employees of the KRUK Group Companies', which describe our set of values. Those standards apply to all existing and prospective suppliers, as well as in relations with our employees.

The suppliers we cooperate with are chosen:

- based on competitive bids,
- in single-source procurement processes,
- based on contract renegotiation,
- under framework contracts.

In procurement processes with a value in excess of PLN 100 thousand carried out in Poland we also apply the CSR criterion. The prospective suppliers are requested to complete a relevant questionnaire, containing a number of questions based on which we can assess them in terms of their environmental, social and economic ethics. We need to ensure that the rules and standards we adhere to are respected by our key suppliers as well. Therefore, we ask questions about their best practices in CSR with respect to:

- local communities,
- employees and workplace,
- market and clients,
- natural environment.

In 2018, 90% of all suppliers taking part in our procurement processes completed the CSR questionnaire. [G4-EC9]

6.2 Category: Environmental

Our business does not leave any direct environmental footprint, as we provide financial services. However, we identified certain areas of our operations which may have a negative impact on the environment, including in particular consumption of energy and paper and exhaust gases produced by company cars.

KRUK frequently contacts its clients by letter, which is why it consumes large quantities of paper. However, every effort is made to reduce paper consumption, having regard to clients' needs and technological advancement. To this end, all KRUK Group companies, including KRUK S.A., have provided their employees with an instruction on the use of e-documents, based on which they exchange documents in electronic form.

Additionally, to support communication with our clients (debtors), the e-KRUK online platform was launched in 2017. This electronic platform reduces the amount of correspondence sent by letter.

6.2.1 Materials and consumables used at KRUK S.A.

Consumption of paper in 2017 224.74 tonnes | Consumption of paper in 2018: 151.79 tonnes

Disposal of waste paper in 2017: 221.76 tonnes | Disposal of waste paper in 2018: 206.34 tonnes
[G4-EN1]

6.2.2 Energy consumption

Table 35. Total consumption of electricity at KRUK S.A.

Annual consumption	2017	2018
TOTAL CONSUMPTION OF ELECTRICITY [MWh]	3,962.26	4,313.762
Total consumption of energy from non-renewable sources [MWh]	6,937.97	7,186.75
including gasoline [MWh]	799.69	774.91
including diesel oil [MWh]	6,137.53	6,408.92
including natural gas [MWh]	0.75	2.92
Gasoline [m3]	86.16	83.46
Diesel oil [m3]	627.81	655.57
Natural gas [m3]	0.08	0.31

Source: the Company.

[G4-EN3]

As in 2017, in 2018 KRUK's operating activities involved the use of company cars by our employees. The table below also shows CO₂ emissions of the vehicle fleet.

6.2.3 Emissions

Table 36. Total CO₂ emissions

Annual CO ₂ emissions at the KRUK Group	2017	2018
CO ₂ emissions from electricity purchased for the building's needs [tonnes]	3,294.62 tCO ₂ e	3,586.89 tCO ₂ e
CO ₂ emissions related to transport and fuel combustion in the engines of company vehicles [tonnes]	1,838.00 tCO ₂ e	1,904.72 tCO ₂ e
Total CO₂ emissions at the organisation	5,132.62 tCO₂e	5,491.62 tCO₂e

Source: the Company.

[G4-EN15][G4-EN16]

6.3 Category: Social

6.3.1 Employment at KRUK S.A.

2017

Total number and rate of new hires during the reporting period by age group, gender and region

Gender	New hires in age group ≤ 30	employment rate in age group ≤ 30	New hires in age group ≥ 50	employment rate in age group ≤ 50	New hires in age group 3,050	employment rate in age group 30-50	TOTAL
Women	271	0.10	18	0.01	301	0.11	590
Men	171	0.06	32	0.01	233	0.09	436
TOTAL	442	0.16	50	0.02	534	0.2	1026

Total number and rate of employee turnover during the reporting period by age group, gender and region

Gender	Number of departures in age group ≤ 30	Employee turnover in age group ≤ 30	Number of departures in age group ≥ 50	Employee turnover in age group ≤ 50	Number of departures in age group 30-50	Employee turnover in age group 30-50	TOTAL
Women	163	0.06	29	0.01	209	0.08	401
Men	140	0.05	35	0.01	149	0.06	324
TOTAL	303	0.11	64	0.02	358	0.13	725

Source: the Company.

2018

Total number and rate of new hires during the reporting period by age group, gender and region

gender	new hires in age group ≤ 30	employment rate in age group ≤ 30	new hires in age group ≥ 50	employment rate in age group ≤ 50	new hires in age group 30 - 50	employment rate in age group 30 - 50	TOTAL
women	63	0.03	1	0.00	78	0.04	142
men	45	0.02	4	0.00	36	0.02	85
Total	108	1.4	5	0.06	114	1.48	227

Total number and rate of employee turnover during the reporting period by age group, gender and region

gender	number of departures in age group ≤ 30	employee turnover in age group ≤ 30	number of departures in age group ≥ 50	employee turnover in age group ≤ 50	number of departures in age group 30 - 50	employee turnover in age group 30 - 50	TOTAL
women	62	0.03	3	0	98	0.05	163
men	34	0.02	6	0.00	46	0.02	86
Total	96	0.05	9	0	144	0.07	249

[G4-LA1]

We care for the development of our employees, their health and safety. We also seek to create a friendly work environment for them.

Our employees can:

- use the Company Social Benefits Fund, including in the form of non-cash financial assistance, non-repayable allowances for persons in particularly difficult life situations, or holiday allowances;
- learn foreign languages (as of July 1st 2018, all employees have access to a self-learning online platform for learning English; we provided partial funding for foreign language courses before, but only for those employees who worked closely with foreign companies);
- use the Multisport card, providing access to sports and leisure activities, on attractive terms;
- use the My Benefit bonus system, which we implemented in 2018 for all employees of our Polish companies;
- receive partial funding for the purchase of eyeglasses;
- participate in internal and external training courses we provide to enhance the professional skills and qualifications of our employees;
- use medical care services for themselves and their families;
- take advantage of group life insurance;
- access a library of books for employees, with new books added to the collection every year;
- receive partial funding for team building meetings;
- receive special bonuses; just as in 2017, in 2018 – on the occasion of the Children's Day – employees having children received prepaid gift cards, with the gift amounts depending on their earnings;
- take advantage of flexible working time, including remote work as of 2017. This means they can:
 - start work between 6 am and 11 am and finish it after having worked the number of hours specified in their employment contracts;
 - work out of office occasionally, in accordance with internally agreed rules and conditions.

[G4-LA2]

We support employees who are working parents. This is why we introduce certain solutions to help them maintain a healthy work-life balance. The KRUK Group respects the rights of parents. In addition, at our headquarters in Wrocław we have a special room for a mother and a child.

Male employees of the KRUK Group who become fathers may, at their request, go on paternity leave. We respect all regulations applying to new parents in Poland.

Table 37. Employees of the KRUK Group, excluding KRUK S.A., who took maternity/paternity leaves in 2018

Total number of employees who were entitled to maternity/paternity leaves, by gender

Women	43	Men	5
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Total number of employees who took maternity/paternity leaves, by gender

Women	43	Men	5
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Total number of employees who returned to work after taking maternity/paternity leaves, by gender

Women	37	Men	6
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Total number of employees who returned to work after taking maternity/paternity leaves and remained employed at KRUK for twelve months after returning to work, by gender

Women	16	Men	7
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Metrics relating to employees returning to work and remaining employed after taking maternity/paternity leaves, by gender

Return rate for female employees	86.05	Return rate for male employees	120.00
Employment maintenance rate for women	37.21	Employment maintenance rate for men	140.00

[G4-LA3]

6.3.2 Occupational Health and Safety

At KRUK, we pay special attention to occupational health and safety. We analyse incidents and threats to safety for each employee group on an ongoing basis. One risk faced by KRUK field consultants, who visit clients at their homes, is being attacked by pets (mainly dogs). Therefore, as of 2017 every new field consultant is presented with an instructional video as part of their induction training, which shows how to act in such situations.

As a standard, each employee undergoes OHS training as required by applicable laws and regulations. At KRUK S.A., a four-person Occupational Health and Safety Committee has been established, which monitors OHS programmes, controls workstations, collects feedback and provides advice on occupational safety. The Committee supports the entire organisation and cooperates with two regional Health and Safety Inspectors and with the Company management.

Percentage of total workforce represented in formal joint health and safety committees: 0.66%.

Types of accidents and injuries at KRUK S.A. in 2017 – fall from height – 1 – road traffic accident – 1 – fall on a flat surface – 3 – injury while getting out of the car – 1 – dog bite – 2 Injuries of cervical spine, ankle sprain, shoulder sprain, muscle tear, laceration from a dog bite. Total number of accidents – 8 , of which: – men: 7 – women: 1	Types of accidents and injuries at KRUK S.A. in 2018 – fall from height – 5 – road traffic accident – 2 – fall on a flat surface – 3 – injury while getting out of the car – 1 – dog bite – 0 Injuries of cervical spine, ankle sprain, shoulder sprain, muscle tear, laceration from a dog bite. Total number of accidents – 11 , of which: – men: 6 – women: 5
Accident rates (all accidents at work in 2017): a) severity rate: – men: 56.14 – women: 38 b) frequency rate: – men: 4.2 – women: 0.6	Accident rates (all accidents at work in 2018): a) severity rate: – men: 32 – women: 46.6 b) frequency rate: – men: 3.64 – women: 3.03
Occupational disease rate: 0	Occupational disease rate: 0
Lost day rate (i.e. number of calendar days from the date of receiving sickness leave): – men: 393 – women: 38	Lost day rate (i.e. number of calendar days from the date of receiving sickness leave): – men: 192 – women: 233
Number of fatal accidents: 0	Number of fatal accidents: 0

Source: the Company.

KRUK S.A.'s system for reporting accidents and recording accident data covers all locations where we operate. Employees report accidents at work to the Company OHS officer and to their immediate superiors. The same system is used at other KRUK Group companies.

Accident documentation is prepared within 14 days from reporting the accident, and all accidents are entered in the accident register and reported to the Statistical Office. [G4-LA6]

6.3.3 Workers with high incidence or high risk of diseases related to their occupation

In 2016-2018, our employees did not report any occupational diseases. There were no reports of serious or fatal accidents at work. [G4-LA7]

6.3.4 Development and education of employees

Individual development of each member of our team contributes to the development of the entire organisation. Therefore, we focus on continuous advancement of the skills and qualifications of our employees. It is a major investment aimed at building an innovative team that works with passion. Our employees are offered many internal training courses, prepared and delivered by the Training Process and Products Development Team. The courses differ depending on the length of service and the needs related to the duties of a given person.

Comparative data from the last two years is presented below.

Training courses organised at KRUK S.A. are open to employees of other Polish Group companies. As a result, there is no standalone data for KRUK S.A.

Table 38. Average hours of training per employee in 2017 and 2018, by gender

	Women	Men	Total
The KRUK Group – Polish companies	19.8 hours/person	22.8 hours/person	21 hours/person

Data for 2018 is similar to the 2017 figures.

Table 39. Organisation of and participation in training courses at Polish KRUK Group companies in 2018

Type of training	Number of training courses	Number of persons trained				
		total	Women		Men	
Face-to-face training	649	6,691	4,059	61%	2,632	39%
E-learning training	20	6,874	4,451	65%	2,419	35%

Table 40. Average number of training courses per person in 2018

	Women	Men	Total
Face-to-face training	3.3	3.8	3.5
E-learning training	3.6	3.5	3.6

[G4-LA9] [G4-LA10] [G4-LA11]

Our employees can participate in specialist and managerial training, and each newly recruited person completes a full cycle of induction training where they learn, among other things, about the core values and ethical principles applicable across the Group.

In addition, we have a managerial skills development programme in place, which supports professional advancement of our management staff.

In mid-2016, we implemented an e-learning training platform, facilitating fast enhancement of employees' qualifications. It hosts mainly courses in the field of law, data security and protection, ethical principles and good practices in the industry, as well as product training, and courses related to projects implemented in the organisation. The e-learning platform also offers courses for management staff, combined with traditional training.

One of the e-learning courses concerns employee evaluation, which is in keeping with the Group's culture of providing feedback to fellow employees. To save working time, starting from 2018 the annual evaluation is carried out once a year (in previous years it was twice a year). As part of the process, employees evaluate their colleagues and their superiors and share comments on cooperation with those persons. They may also talk to their superiors about their future professional development.

Table 41. Percentage of employees receiving regular performance and career development evaluation, by gender and by employee category Data for 2017 and 2018

	Percentage of employees who received regular performance evaluation in 2017	Women	Men
KRUK S.A.	99.6%	59%	41%
Management staff	12%	58%	42%
Other employees	88%	60%	40%

	Percentage of employees who received regular performance evaluation in 2018	Women	Men
KRUK S.A.	93.4%	60%	40%
Management staff	12%	58%	42%
Other employees	88%	60%	40%

Source: the Company.

[G4-LA11]

6.3.5 Human rights

As in the year before, in 2018 we provided training in the procedures and rules relating to human rights to all new employees of KRUK S.A. The training revolved mainly around the core values applying across the KRUK Group. [G4-HR2]

Diversity and equal opportunity

Since 2013, KRUK S.A. has been a signatory of the Diversity Charter, an international initiative promoted by the European Commission and pursued by the following EU Member States: Poland, Germany, Spain, Italy, Luxembourg, France, Austria, Sweden, Belgium, Ireland and Estonia. Organisations which subscribe to the Diversity Charter strive to promote social cohesion and equality.

Implementation of the Diversity Policy by an organisation means that the organisation acknowledges differences between people and is aware of their fundamental importance to its own success. It is an important element of our business strategy, which facilitates international growth and enhances our innovativeness and competitiveness.

The aim of the Diversity Policy is to support diverse, multi-cultural workplaces by guaranteeing equal opportunities for promotion and professional development for each employee regardless of their gender, age, disability, health condition, race, nationality, religion, beliefs, sexual orientation, family status, lifestyle or any other criterion. The policy enables the Group to unlock the potential of all its employees and helps prevent any forms of discrimination or bullying in the workplace.

How does KRUK S.A. manage diversity and ensure equal opportunities?

At KRUK S.A. and other KRUK Group companies there are career and development paths in place, which can be accessed by every employee at any time on the Company's intranet.

We operate in a number of countries, therefore we adjust our working style and expectations regarding business relations to the rules applicable also in foreign markets. We also follow the suggestions of our foreign employees; for this reason, we respect the festivities and bank holidays celebrated in their respective countries.

All employees are treated equally, regardless of their gender, religion, nationality, lifestyle, etc.

International meetings of employees from different countries are conducted in English.

Every employee can learn English online and free of charge, via a special language learning platform.

Table 42. Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

2017

Percentage of individuals within the organisation's supervisory bodies in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old

Gender	Number of persons on supervisory bodies in the age group ≤ 30	Percentage of persons on supervisory bodies in the age group ≤ 30	Number of persons on supervisory bodies in the age group ≥ 50	Percentage of persons on supervisory bodies in the age group ≥ 50	Number of persons on supervisory bodies in the age group 30-50	Percentage of persons on supervisory bodies in the age group 30-50	Total
Women	0	0%	0	0%	4	33%	4
Men	0	0%	4	33%	4	33%	8
Total	0	0%	4	33%	8	66%	12

Percentage of employees per employee category in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old

Gender	Number of employees in the age group ≤ 30	Percentage of employees in the age group ≤ 30	Number of employees in the age group ≥ 50	Percentage of employees in the age group ≥ 50	Number of employees in the age group 30-50	Percentage of employees in the age group 30-50	Total
Women	246	16.00%	32	2.00%	626	41.00%	904
Men	160	11.00%	53	3.00%	404	27.00%	617
Total	406	27.00%	85	5.00%	1,030	68.00%	1,521

Source: the Company.

2018

Percentage of individuals within the organisation's supervisory bodies in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old

Gender	Number of persons on supervisory bodies in the age group ≤ 30	Percentage of persons on supervisory bodies in the age group ≤ 30	Number of persons on supervisory bodies in the age group ≥ 50	Percentage of persons on supervisory bodies in the age group ≥ 50	Number of persons on supervisory bodies in the age group 30-50	Percentage of persons on supervisory bodies in the age group 30-50	Total
Women	0	0%	0	0%	4	33%	4
Men	0	0%	4	33%	4	33%	8
Total	0	0%	4	33%	8	66%	12

Percentage of employees per employee category in each of the following diversity categories: gender; age group: under 30 years old, 30 to 50 years old, over 50 years old

Gender	Number of employees in the age group ≤ 30	Percentage of employees in the age group ≤ 30	Number of employees in the age group ≥ 50	Percentage of employees in the age group ≥ 50	Number of employees in the age group 30-50	Percentage of employees in the age group 30-50	Total
Women	219	14%	35	2%	660	43%	914
Men	142	9%	61	4%	415	27%	618
Total	361	23%	96	6%	1075	70%	1,532

Source: the Company.

6.3.6 Equal remuneration for women and men

The remuneration for women and men in the same positions is comparable at KRUK S.A. Any differences in the overall earnings of women and men may result from the difference in salaries in the IT department and the call centre. A majority of the IT staff are men, while in the call centre most of the employees are women.

manager / others	ratio of average remuneration of women to men in 2017	ratio of average remuneration of women to men in 2018
manager	77%	78%
other employees	76%	76%

[G4-LA13]

6.3.7 Non-discrimination

At KRUK S.A. and across the entire Group, we strive to ensure friendly atmosphere and work environment, because we believe that mutual respect enhances our effectiveness and the growth of the Company and its team.

We also take preventive and corrective measures to eliminate and remedy certain negative incidents in the workplace.

Apart from the aforementioned Diversity Charter, we also have in place the Internal Mediation Policy. It contains detailed instructions on how to resolve conflicts in the workplace, and is also used to prevent workplace bullying.

In 2018, we expanded the Mediation Policy, which allowed us to take the following measures:

- we appointed the Consultation and Mediation Team to investigate discrimination-related cases,
- the Compliance Department introduced assessment of the risk of workplace bullying or discrimination,
- we have changed the system for reporting instances of workplace bullying or discrimination to the Consultation and Mediation Team through an anonymous whistleblowing mailbox,
- we introduced a mandatory training system on preventing workplace bullying and discrimination.

The Mediation Policy is mainly intended to help resolve conflicts, prevent workplace bullying and discrimination, and build positive relations between employees. It is also intended to promote a friendly and open organisational culture based on mutual respect and understanding, as well as positive interpersonal relations.

Each employee may lodge a complaint:

- orally to a Consultation and Mediation Team member,
- in writing through an anonymous whistleblowing mailbox.
-

In 2018, we received three complaints (as many as in 2017). The Consultation and Mediation Team analysed all complaints and the parties reached an agreement.

All of our companies operating in Poland have the Employee Support Programme in place, which is meant to provide assistance to employees in difficult life situations. Under the programme, we draw on the specialist assistance and experience of a non-profit organisation which provides psychological support. The Employee Support Programme is consistent with our HR policy and core values, and is based on anonymity and confidentiality. Each employee can request such support; requests may be also filed by a co-worker or a manager of a person facing a personal crisis. An employee receives support from a group of psychologists, free of charge. [G4-HR3]

6.3.8 Human rights grievance mechanisms

We carefully analyse each reported potential infringement of the rights and values that are observed by KRUK S.A. as well as other KRUK Group companies. Apart from preventing conflicts, the Mediation Policy is designed to protect human dignity and rights. The type of measures we take will depend on the type of infringement.

The Company also established an Employee Forum to consider various initiatives proposed by employees and any grievances concerning employment or working conditions.

Reported conflicts or cases of bullying are considered within five business days. The Mediation Policy precisely describes the measures to be taken to resolve such cases on an amicable basis.

In the reporting period, there were no employment-related grievances. [G4-HR12] [G4-11]

6.3.9 Anti-corruption

At KRUK S.A., we adhere to the Misconduct Prevention Policy and the Instruction for Dealing with Suspected Corruption Incidents.

We have also implemented whistleblowing tools for employees to notify the ethics and discipline officers about incidents of abuse, misconduct or dishonesty in general. Anyone noticing any irregularities can report them anonymously using a designated form which can be found at <https://pl.kruk.eu/zglos-naduzycie>. Our employees have been informed of this possibility via internal communication tools, and are reminded about it on the International Corruption Day falling on December 9th. In 2018, we organised an internal competition for the Group employees to remind them about the definitions of misconduct or corruption. We will continue such measures in the future.

[G4-HR12] [G4-S03]

Data security

Our business involves contacts with our clients (debtors). We receive their personal data from our trading partners, pursuant to applicable legal regulations (assignment of receivables) or cooperation agreements. All related activities are carried out in accordance with the applicable legal regulations. Therefore, data processing is of particular importance to all our employees, especially those working directly with personal data. Each employee is required to undergo training in information security and in protection and circulation of inside information at the KRUK Group, which includes price-sensitive information related to KRUK S.A.'s listing on the Warsaw Stock Exchange. The training covers confidentiality of inside information and restricted periods in which disclosure of any inside information is strictly prohibited.

Additionally, every employee is given training in procedures to prevent money laundering and terrorist financing. This is to counteract any activities which would violate the law or applicable rules.

The KRUK Group's anti-corruption measures are also covered by the Gift Policy.

In 2018, we received no grievances related to data management, confidentiality of information or corruption.

Both at KRUK S.A. and at other Group companies, we carried out a comprehensive review and implemented necessary changes to ensure compliance of documentation, procedures and solutions with the requirements of the General Data Protection Regulation ("GDPR").

KRUK S.A. appointed and trained persons serving as the Data Protection Officers (DPO). For detailed information on personal data processing, see <https://pl.kruk.eu/dane-osobowe>.

In 2018, all employees of KRUK S.A. (except for those on longer maternity leaves, sick leaves, etc.) were trained via the e-learning platform in personal data protection.

Protection of personal data is of key importance to us. However, it does happen that we receive certain information by mistake, which leads to complaints. KRUK S.A. verified the number of complaints in which clients requested us to stop processing their personal data.

In 2017, we received 262 such complaints, of which 35 were justified. In 2018, there were 138 complaints, of which 6 were valid. All justified complaints were acknowledged and any damage incurred by the clients was remedied as agreed with the client on a case-by-case basis.

Both at KRUK S.A. and across the KRUK Group, we adjust our procedures and services so as to ensure their highest quality. Therefore, we seek to minimise such risks.

In 2018, we established the Compliance Committee within the KRUK Group, consisting of the heads of the following units: Compliance Department, Security Department, Legal Department, Operational Risk Management and Fraud Prevention Department, Corporate Governance Department, Accounting and Taxes Department, and Legal Support Department.

The Committee's primary tasks are as follows:

- to assess the risks for new products and processes and their material changes;
- to cover all key risk areas: legal, regulatory, tax, economic, corporate governance, information security, personal data security, operational, business continuity and image risks;
- to give comprehensive opinions on risks for new products, new processes, and their material changes.

[G4-SO4] [G4-SO5]

6.3.10 Product and service labelling

Apart from the public surveys described above, we conduct regular satisfaction surveys among our clients (debtors whose debts are managed by the Company) and trading partners.

Innovativeness, high quality of services and, above all, meeting each client's and trading partner's expectations are of key importance in our day-to-day operations. Thanks to the dialogue with these groups, we can adapt our offering to the market needs on an on-going basis and readily develop new solutions, such as the amicable collection strategy with instalment payment plans tailored to the client's financial circumstances.

Clients- debtors are at the heart of the KRUK Group

Anyone may go into debt in the least opportune moment. This is why we at the KRUK Group prefer to speak of 'clients' rather than 'debtors'. Each client is treated individually, with due respect and understanding. We take care to carefully listen to the clients' stories to understand their situation. For a few years now, we have conducted client satisfaction surveys, which help us look at the question of service quality from the clients' perspective. The Group thoroughly analyses all the opinions and suggestions they share with us.

Since 2015, the KRUK Group's Customer Experience Management Department has used the Net Promoter Score (NPS) to measure client satisfaction. Based on the surveys we carry out on a daily basis, we receive real feedback on clients' perception of their relationship with KRUK.

Clients share their opinions on the telephone conversations with our call centre staff and meetings with field consultants, as well as on the amicable settlement process and the monitoring stage.

In the surveys, clients are asked to rate a given aspect from 0 to 10, and on this basis are divided into three groups: detractors (who give scores between 0 and 6), neutrals (scores of 7–8), and promoters (9–10). In order to calculate the NPS indicator, the number of respondents in those groups is translated into a percentage, and then the percentage of detractors is deducted from the percentage of promoters. The NPS can range between -100% and +100%, where +100% means the highest ratings.

In 2018, nearly 21,000 clients of KRUK S.A. took part in the telephone survey carried out in Poland, around one thousand more than in 2017.

Based on the analysis of their answers, the following NPS figures were achieved:

- cooperation with field consultants: 94% (2017: 83%)
- cooperation with call centre consultants: 84% (2017: 73%)
- amicable settlement process: 83% (2017: 82%)
- monitoring of arrangements: 70% (2017: 67%)

We have achieved high NPS levels, which may be explained both by our unique approach to client service and debt, as well as the very nature of our industry. The change in the approach to and perception of debt, which we have initiated, is still extraordinary and unexpected for many of our clients.

KRUK's trading partners

The KRUK Group is committed to building positive relationships both with individuals (debtors) and trading partners. We strive to ensure that our services meet their expectations. Therefore, we maintain regular contacts with them and provide support through various periodic initiatives. An important element of those activities is trading partner satisfaction surveys, for which we use such tools and methods as:

- **NPS (Net Promoter Score)**, or likelihood of recommendation. It is a very important metric in our relationships with trading partners, as it demonstrates whether our services are recommended in the market;
- **Standardised CSI (Customer Satisfaction Index)** The methodology makes it possible to manage relationships with trading partners in a systematic manner. On the one hand, it shows those areas which receive highest ratings from our partners; on the other, it identifies those which require immediate optimisation;
- **dialogue** – in addition to standardised indicators, dialogue is a way to collect and thoroughly analyse answers to open-ended questions in which our partners are asked to indicate areas for improvement. Based on such feedback, we can determine which of the Company's initiatives are particularly appreciated and should be continued;
- **tracking surveys**, in which we periodically ask the same questions. This repeatable survey method allows us to monitor how the perception of our organisation by our partners changes and to determine whether follow-up changes are effective. Tracking surveys are an important component of the feedback collection system, which gives us an insight into the effectiveness of our activities relating to customer experience from the long-term perspective.

In 2018, KRUK S.A. recorded NPS of 73%, down 5pp on 2017. However, compared with 2016, the 2018 NPS was up 4%.

Despite the slight decline, these results remain high, which means that our partners are likely to recommend our services and cooperation with us to other businesses and institutions. [G4-PR5]

Marketing and PR communications of the KRUK Group and its compliance with regulations

In 2018, as in the previous years, we continued our marketing, educational and communication activities in line with the adopted strategy.

Over the years, the Company has conducted a number of public surveys to research behaviours relating to household budget planning and personal finance management, as well as consumption behaviours and ways out of debt.

The 2018 surveys covered, among other aspects, spending on winter holidays and on Christmas, Poles' 'superpowers' and the ability to use them in finance management, as well as wedding planning expenditure.

KRUK always wants to help its customers understand the legal aspects of debt recovery and saving.

We address our communications and initiatives to the general public, because we believe that every person can find themselves in a difficult financial and life circumstances and thus fall into debt.

Throughout 2018, our companies stayed in touch with the media through press releases, based on which the media provided educational publications and information to the wider audience. Our experts appeared in regional and national media, offering their commentaries and advice.

Presented below is the number of publications released in 2018, which significantly exceeded their number in 2017. This was due to the overall growth in the number of publications on the debt management industry including references to our company.

KRUK S.A.

Internet 4,712

Press 471

Radio 50

Television 55

TOTAL 5,288

For many years, KRUK has been making every effort to ensure that marketing and PR messages broadcast in the media are reliable, ethical, and in accordance with the law and the rules of social coexistence. Our advertising messages are important elements of communication with the public, including indebted people, which is why they are prepared in accordance with the rules of broadcasting advertising spots and identifying sponsors.

In 2018, there were no cases of non-compliance with the laws or regulations applying to the provision and use of our services. No penalties were imposed on the Company for breaking the laws and regulations that govern marketing communication, including advertising, promotion, and sponsorship.
[G4-PR7] [G4-PR9]

6.4 GRI index

Indicator	Indicator description	Reference in the report (page number)	External assurance
Strategy and analysis			
G4-1	Statement from the President of the Management Board on the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	5	
G4-2	Description of key impacts, opportunities, risks	27	
Organisational profile			
G4-3	The name of the organisation	5	
G4-4	Primary brands, products, and services	12, 16	
G4-5	Location of the organisation's headquarters	5	
G4-6	Number of countries where the organisation operates, and names of these countries	12	
G4-7	Nature of ownership and legal form	5	
G4-8	Markets served, including geographic breakdown, sectors served, and types of clients and beneficiaries	12	
G4-9	Scale of the organisation	12	
G4-10	Total number of employees by employment type, employment contract and region, broken down by gender	6	
G4-11	Percentage of employees covered by collective bargaining agreements	88	
G4-12	Description of the supply chain	78	
G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or value chain	Not applicable	
G4-14	Applicability and application of the precautionary principle in the KRUK Group	27	
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses.	67	
G4-16	Membership of associations, national or international organizations	67	
G4-17	Entities included in the consolidated financial statements	12	
G4-18	Process of defining the report content	71	
G4-19	Identified material aspects of environmental and social impact	69	
G4-20	Relevance of identified aspects of the environmental and social impact of the KRUK Group	71	
G4-21	Limitations of the report regarding material aspects of environmental and social impact outside the organisation	69	
G4-22	Effect of any restatements of information provided in previous reports	65	
G4-23	Changes in relation to previous periods covered by the report regarding the scope and boundaries relating to the engagement of external stakeholders	65	
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organisation	70	
G4-25	Basis for identifying and selecting stakeholders engaged by the KRUK Group	71	
G4-26	The Group's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	71	
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the KRUK Group has responded	69, 71	
G4-28	Reporting period	65	
G4-29	Date of most recent previous report (if any)	65	
G4-30	Reporting cycle	65	
G4-31	Contact person	65	
G4-32	GRI Content Index	65, 95	
G4-33	Policy and practice with regard to seeking external assurance for the report	68	
Governance			

G4-34	Structure and composition of the governance body of the Kruk Group with other committees of the highest governance body responsible for decision-making on economic, environmental and social impacts		
G4-38	Number and gender of members of the highest management and supervisory body	6	
Ethics			
G4-56	The values of the Kruk Group, its principles, standards and norms of behaviour and ethics	68	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity		
ECONOMIC INDICATORS			
Aspect: Economic performance			
G4-DMA	Management of material aspects or their impacts		
G4-EC1	Direct economic value generated and distributed		
Aspect: Market presence			
G4-EC5	Ratio of the entry level wage by gender at significant locations of operation to the minimum wage	72	
Aspect: Indirect economic impacts			
G4-EC7	Development and impact of infrastructure investments and services supported	78	
Aspect: Procurement practices			
G4-EC9	Percentage of the procurement budget of significant locations of operation spent on local suppliers	79	
ENVIRONMENTAL INDICATORS			
Aspect: Materials			
G4-EN1	Used materials and (or) raw materials by mass or volume	80	
Aspect: Energy consumption			
G4-EN3	Energy consumption within the organisation	80	
G4-EN29	Compliance with regulations		
Aspect: Emissions			
G4-EN15	Direct greenhouse gas emissions	80	
G4-EN16	Indirect greenhouse gas emissions	80	
SOCIAL INDICATORS			
Aspect: Employment			
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	81	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	82	
G4-LA3	Return to work and retention rates of employees who took parental leave, by gender	82	
Aspect: Occupational Health and Safety			
G4-LA6	Types of injury, injury rate, occupational diseases, lost day rate, absentee rate and work-related fatalities, by region and gender	83	
Aspect: Training and education			
G4-LA9	Average hours of training per year per employee by gender and employee category	84	
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	84	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	84, 85	
Aspect: Diversity and equal opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity		
Aspect: Equal remuneration for women and men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	87	

Aspect: Non-discrimination			
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	85	
G4-HR3	Total number of incidents of discrimination and corrective actions taken	88	
Aspect: Human rights grievance mechanisms			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	88	
Aspect: Anti-corruption			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	88	
G4-SO4	Communication and training on anti-corruption policies and procedures	89	
G4-SO5	Confirmed incidents of corruption and actions taken	89	
Aspect: Compliance			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		
Aspect: Product and service labelling			
G4-PR5	Results of surveys measuring customer satisfaction	91	
Aspect: Marketing communications			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	92	
Aspect: Compliance with marketing communications regulations			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	92	

Source: the Company.

[G4-32]

7 OTHER INFORMATION

7.1 Court, administration and arbitration proceedings

In the ordinary course of its business, the Company is a party to court and enforcement proceedings concerning its operations. In 2018, it was the plaintiff or participant in 2,025 court proceedings (including bankruptcy cases), where the total value of claims was approximately PLN 361,961,286. Furthermore, in 2018, 37,696,730 enforcement proceedings were pending upon motions filed by the Company, with a total value of claims being enforced of approximately PLN 360,158,468. Court and enforcement proceedings are a stage in the process of enforcing claims against the Company's debtors. In 2018, the Company was a defendant in 926 court proceedings, where the total value of claims was approximately PLN 133,699,394. 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.

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

No material court, arbitration or administrative proceedings are pending against the Company in relation to its liabilities or claims.

7.2 Auditors

On June 8th 2017, the Company entered into an agreement with KPMG Audyt Sp. z o.o. of Warsaw for the audit of its separate and consolidated financial statements for the periods ended on December 31st 2017, December 31st 2018, and December 31st 2019, and for the review of its separate and consolidated financial statements for H1 2017, H1 2018, and H1 2019. The fee for auditing the full-year separate financial statements of the Company, auditing the full-year financial statements of the subsidiaries, reviewing the full-year financial statements of the subsidiaries, and auditing the full-year consolidated financial statements and reviewing the half-year consolidated financial statements was set at PLN 1,227 thousand (2017: PLN 1,053 thousand); and the fee for other assurance services – at PLN 433 thousand (2017: PLN 408 thousand). The separate and consolidated financial statements for 2017 were audited by KPMG Audyt Sp. z o.o.

7.3 Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to facilitate the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2018, the strategy of building the platform to support operating processes remained unchanged – the Company's internal resources continued to develop the platform, improving its flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its key operational processes.

7.4 Performance of Company shares on the Warsaw Stock Exchange

7.4.1 Share price

KRUK share price on the WSE fell 39% in 2018 (2016: up 11%). Our stock underperformed in relation to the WIG and mWIG40 indices, which reached rates of return of -9% and -19%, respectively. The decline was attributable to factors such as deteriorating conditions on the Polish capital market or a more negative perception of the debt management industry in Poland in the aftermath of a declaration of bankruptcy by one of our competitors. KRUK managed to compensate for negative external drivers with improved operating performance, high investments and record-high recoveries from purchased debt portfolios in 2018.

On the last trading day in 2018, the Company's market capitalisation was PLN 3.0bn (compared with PLN 4.9bn at the end of the previous year). On December 31st 2017, KRUK ranked 34th in terms of market capitalisation on the WSE.

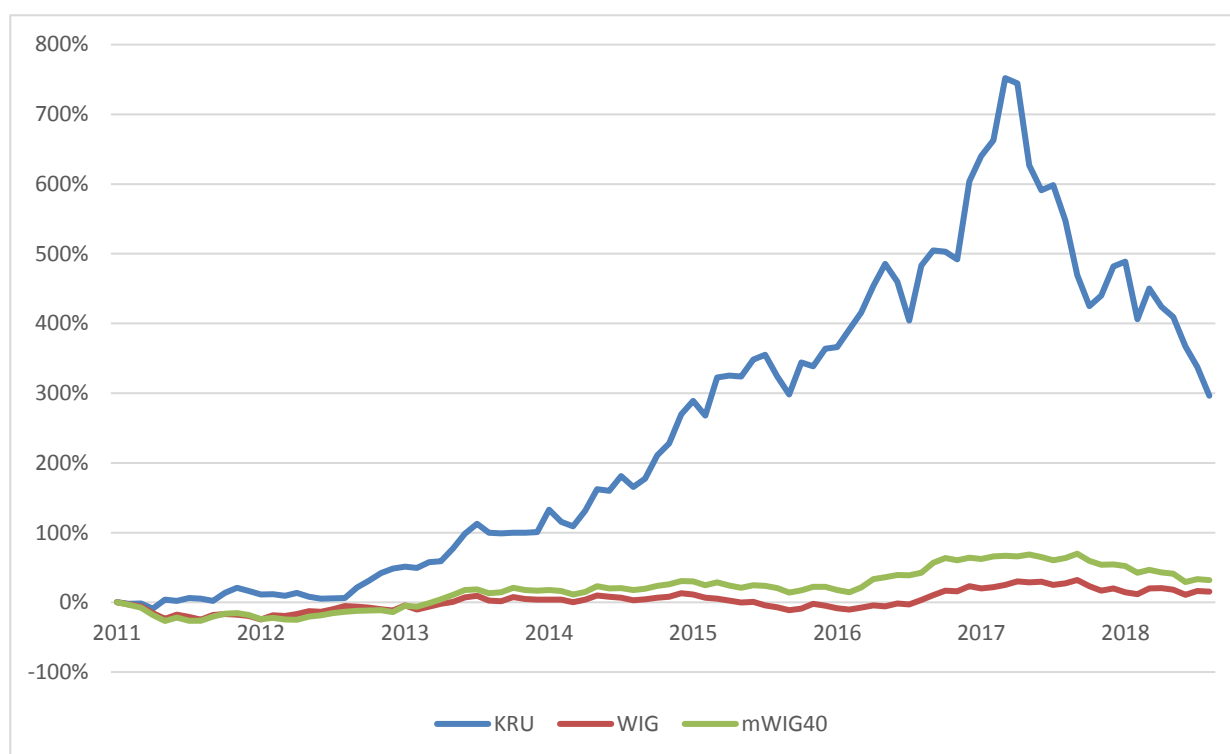
Table 44. Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2018 – closing prices

Date	KRUK	WIG	mWIG40
Rate of return	-38.8%	-9.5%	-19.3%

Source: GPW.pl

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 2018, the rate of return on KRUK shares was 297%. Over the same period, the WIG index, reflecting the dynamics of the entire WSE market, rose by 15%, while the mWIG40 index (mid-cap companies) went up by 32%.

Chart 2. Performance of KRUK stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of 2018

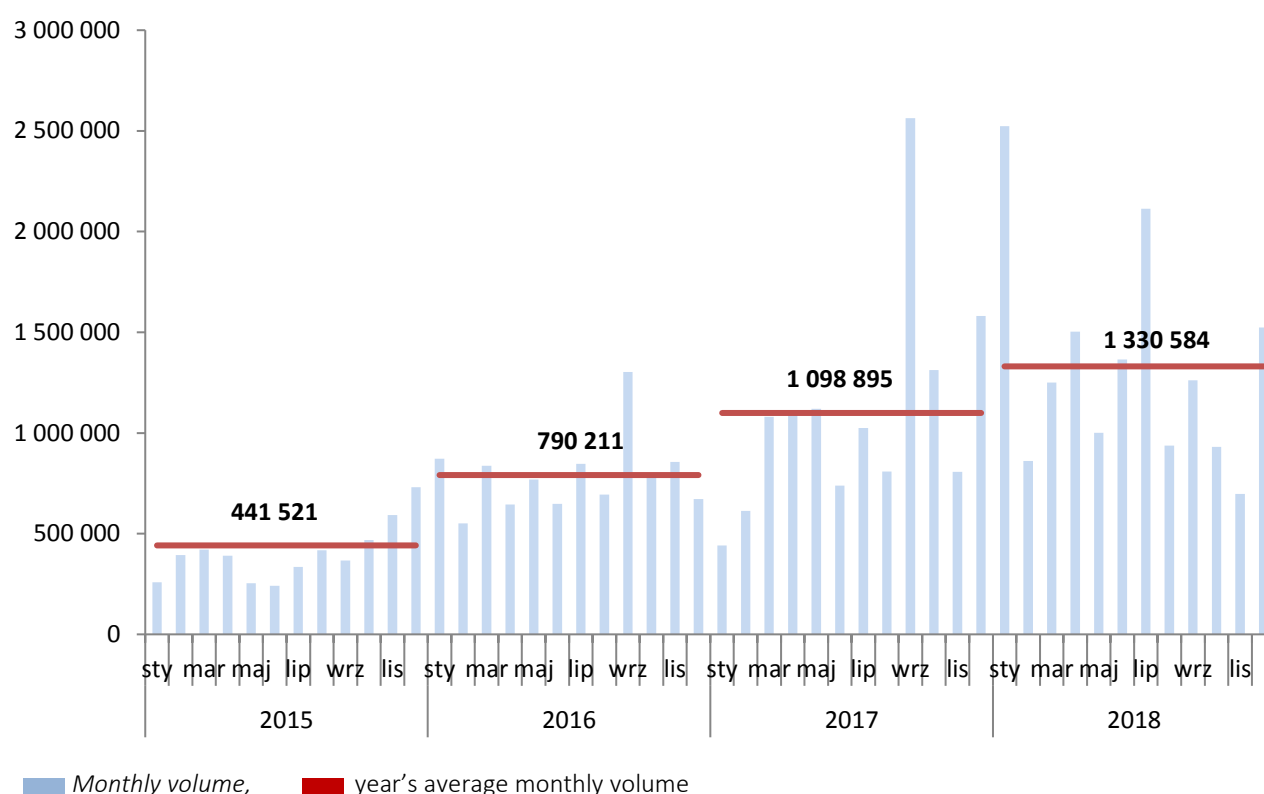


Source: in-house analysis, based on stooq.pl

7.4.2 Liquidity

The total volume of KRUK S.A. shares traded in 2018 was 16.0m, and the total value of trading reached PLN 3.3bn. To compare, the total volume of KRUK S.A. shares traded in 2017 stood at 13.8m, and the total value of trading was PLN 3.7bn. The average daily trading volume of KRUK shares in 2018 was 64.1 thousand shares, and the average daily trading value stood at PLN 13.5m. In 2018, KRUK was the 17th most liquid company on the WSE (in terms of the total annual trading volume).

Chart 3. Monthly volumes in each month and the year's average monthly volume of trading in KRUK shares in 2015–2018



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

7.5 Investor relations

The Company's activities and initiatives in the investor relations area are targeted at:

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

For more information on key investor relations activities in 2018, see Table below.

Table 44. Key investor relations activities in 2018

	Number of non-deal roadshows	Number of investor conferences
Poland	4	6
Foreign markets	2	7

Source: in-house analysis.

Polish institutional stock and bond investors

- Four conferences organised following the publication of results for 2017, Q1 2018, H1 2018 and Q1–Q3 2018
- Participation in the Trigon Investor Day 2018 conference in Warsaw in January 2018
- Participation in the Wood Emerging Europe Financials Conference in Warsaw in June 2018
- Participation in the Pekao IB Emerging Europe Investment Conference in September 2018
- Participation in the mBank European Financials Conference in October 2018

- Participation in the Financial Sector conference organised by Santander for Polish institutional investors in November 2018
- Mailing to investors on material events at the Company
- Ongoing contacts with investors

Polish retail stock and bond investors

- Participation in the Wall Street 22 Conference organised by the Polish Association of Retail Investors in May 2018
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website
- Chats with individual investors
- Ongoing contacts with investors

Foreign institutional stock investors

- Four conference calls organised following the publication of results for 2017, Q1 2018, H1 2018 and Q1–Q3 2018
- Organisation of two non-deal roadshows in Frankfurt/Vienna and Boston/New York
- Polish Capital Market – London 2018 conference organised by PKO BP
- Polish Innovation & Growth Conference in Stockholm organised by Wood&Co.
- Wood CEE Investor Days 2018 Conference in New York
- Erste Group Investor Conference 2018 – Stegersbach
- Raiffeisen Polish Day in Bucharest 2018 Conference
- Frontier & Emerging Conference 2018 organised by Auerbach
- WOOD's Winter in Prague Conference 2018
- Mailing to investors on material events at the Company
- Ongoing contacts with investors

Brokerage house and investment bank analysts

- Four conferences organised following the publication of results for 2017, Q1 2018, H1 2018 and Q1–Q3 2018
- Mailing to investors on material events at the Company
- Ongoing contacts with analysts

The table below lists analysts covering the Company.

Table 45. Sell-side analysts covering KRUK

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 Ipopema	Łukasz Jańczak	lukasz.janczak@ipopema.pl
JP Morgan	Michał Kuzawiński	michal.kuzawinski@jpmorgan.com
DM mBank	Michał Konarski	michal.konarski@mdm.pl
DM PKO BP	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
Pekao IB	Kamil Stolarski	kamil.stolarski@pekaoib.pl
DM Trigon	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Vestor DM	Michał Fidelus	michal.fidelus@vestor.pl
Wood & Co.	Marta Jezewska-Wasilewska	marta.jezewska-wasilewska@wood.com

Source: in-house analysis.

Financial journalists

- Four conferences organised following the publication of results for 2017, Q1 2018, H1 2018 and Q1–Q3 2018
- Press releases concerning key corporate events
- Interviews and comments by Company representatives in financial media (such as *Parkiet*, *Puls Biznesu*, *Stockwatch*)
- Maintaining the Company's profile on Stockwatch

The key themes of the Company's 2018 market communication included:

- Communication of the Company's financial results for 2017, Q1 2018, H1 2018, Q3 2018
- Quarterly information on the Group's investment expenditures and recoveries
- Payment of dividend of PLN 5.0 per share – the fourth dividend distribution since the Company's stock exchange debut
- Communication of the launch of a strategic options review
- Communication of the new growth strategy for 2019–2024, setting a net profit target of PLN 700m to be achieved by 2024
- Further expansion into the new markets – Italy and Spain.

8 GLOSSARY OF TERMS

Auditor	KPMG Audyt Sp. z o.o. of Warsaw – the Company’s auditor
CAGR	Compound Annual 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 P. Krupa sp. k. of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK Espana	KRUK Espana S.L. of Madrid, Spain
KRUK Italia	KRUK Italia S.r.l of Milan, Italy
KRUK 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, Bison 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 Plan	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)
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 2018, prepared in accordance with the IFRS
Company KRUK Issuer	KRUK S.A. of Wrocław
Subsidiaries	The Company's subsidiaries, as defined in the Polish Accounting 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 2018 is presented by the Company's Management Board, consisting of the following members:

Piotr Krupa CEO and President of the Management Board
Urszula Okarma Member of the Management Board
Agnieszka Kulon Member of the Management Board
Iwona Słomska Member of the Management Board
Michał Zasępa Member of the Management Board

Wrocław, March 7th 2019



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