

DIRECTOR'S REPORT

ON THE OPERATIONS OF THE KRUK GROUP

IN 2019



Grupa Kapitałowa KRUK

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Dear Shareholders,

I would like to present the Directors' Report of the KRUK Group for 2019. In my opinion, it was a demanding year when we had to face challenging conditions and several adverse developments which affected the Group's profits. As a professional, I always look for improved performance and new record highs, but I also understand how important security and long-term strategy are in business. In 2019, our main concern was to work out the Group's organisation and to reflect upon our modus operandi to date, so we can embrace future challenges and opportunities. In 2020, I would like us to continue with efforts focused on changes and their implementation throughout the organisation.

Last year, **we earned net profit of PLN 277m**, a decrease of 16% on 2018. The decrease year-on-year was driven by several adverse factors, the most important of which were the write-downs on the carrying amount of our Spanish, a write-down on the portfolio and recognition of a provision in Slovakia, a provision for Wonga.pl, a write-off of AgeCredit S.r.l. and, last but not least, adverse movements of exchange rates.

Without a doubt, PLN 277m profit is a solid result; but my expectations and those of the market were higher. However, we delivered a record-high cash EBITDA of PLN 1.1bn, an increase of 12% year on year.

It was a result of PLN 1.8bn in recoveries from purchased debt portfolios, which increased by 13% year on year.

We were particularly pleased with **the last quarter**, when the recoveries came in at **PLN 475m**, our best-ever quarterly result. We have invariably benefited from increasing operational efficiency. Most of the recoveries were reported in Poland and Romania – they accounted for almost 50% and over 30% of the total, respectively. The Italian market, with its nearly PLN 185m recoveries, and the Spanish market, where recoveries were PLN 116m, are increasingly important sources of collections.

In 2019, we made some material and good investments, which will generate growing recoveries in the future. **We spent over PLN 780m on new debt portfolios** with a nominal value of receivables at PLN 8.3bn. The largest amount, i.e. 43% of the total, was invested in Poland. Throughout 2019, we made selective purchases, focusing on investments which, according to our assumptions, will enable us to achieve attractive rates of return in the future. Despite our expectations, there was no significant increase in activity on the Polish debt market, especially in the banking sector. In Romania, on the other hand, our investments placed us as number one in the country, while in new markets – where we focused on servicing previously purchased portfolios – we invested selectively and cautiously. In the last quarter of the year we resumed investing in Italy, with a measured and prudent approach. You will find more information on the investment environment in the Business Model section.

Thanks to the investments, **the carrying amount of the debt portfolio increased by 3%, to PLN 4.2bn**, with estimated remaining collections (ERC) of PLN 7.6bn.

In 2019, we had ample access to financing. We had credit lines of up to PLN 1.85bn and issued four series of bonds with a total principal amount of PLN 215m. We redeemed three series of bonds with a total value of PLN 211m and maintained conservative debt levels – at year-end, the ratio of net debt to cash EBITDA was 2.3x.

Last year, after early conclusion of the 2015-2019 strategy, we launched a new strategy until 2024. Our current objective, modified in 2019, is clear – to continue growth by increasing the scale of the business and improving efficiency of the KRUK Group's processes, with conservative debt levels maintained, and, our financial condition and business environment permitting, to pay dividends to the shareholders. The Management Board declares its full commitment to this objective and the KRUK Group team is strongly committed and motivated to deliver the strategy.

In 2019, we focused on the Lean Transformation and devoted a lot of energy to enhancing employee skills and operational efficiency in both our mature and new markets, where we are now transitioning from the learning phase to the improvement phase. These efforts are paying off and will allow us to deliver better results now and in the future.

Last year, we also launched a consumer finance company, Wonga.pl, which operates complementary business to KRUK, while operating in a highly independent manner.

We are glad that in 2019 KRUK was the 21st most liquid stock on the WSE (in terms of the total annual trading volume). This demonstrates the investors' confidence in us and galvanises our commitment to work even harder.

I encourage you to read this report thoroughly. In my opinion, it does not merely sum up KRUK's financial results for 2019, but also describes everyday work of our organisation, and particularly our employees who have been joining KRUK over more than 20 years of its operations. Together we form a harmonious team of people with passion, who are constantly learning and striving for perfection. To sum up the past year, I'm already looking ahead, wanting to be one step ahead.

[G4-1]



Respectfully yours
PIOTR KRUPA

SUMMARY OF 2019 RESULTS



Portfolio investments

781 m

- 44%



Recoveries

1782 m

+ 13%



Net profit

277 m

- 16%



ROE*

14%

	PLNm			EUR	
	2019	2018	CHANGE	2019	2018
EXPENDITURE ON DEBT PORTFOLIOS	781	1 395	-44%	182	327
GROSS RECOVERIES	1782	1577	13%	414	370
CARRYING AMOUNT OF PURCHASED PORTFOLIOS	4 197	4 078	3%	976	956
GROSS ESTIMATED REMAINING COLLECTIONS (120 MONTHS)	7 563	7 239	4%	758	1 697
TOTAL REVENUE	1 251	1 165	7%	291	273
REVENUE FROM PURCHASED PORTFOLIOS	1138	1 070	6%	265	251
EBIT**	443	483	-8%	103	113
EBITDA***	487	503	-3%	113	118
CASH EBITDA****	1130	1 009	12%	263	236
NET PROFIT	277	330	-16%	64	77
BASIC EPS (PLN)	14,61	17,51	-17%	3,40	4,10
DILUTED EPS (PLN)	14,30	17,09	-16%	3,32	4,01
ROE	14%	19%	-	-	-
NET DEBT TO EQUITY	1,30	1,36	-	-	-

* ROE = (NET PROFIT)/(EQUITY AT END OF PERIOD), NET OF SHARE CAPITAL INCREASE CARRIED OUT IN DECEMBER 2019

** THE EBIT AND EBITDA VALUE DOES NOT TAKE INTO ACCOUNT THE OTHER OPERATING REVENUE AND OTHER OPERATING COSTS (NOT ASSIGNED) IN 2018 AND 2019 IN THE AMOUNT CORRECTLY - PLN 4,718 THOUSAND AND PLN -2 369 THOUSAND (NOTE 4 IN THE CONSOLIDATED FINANCIAL STATEMENTS)

*** EBITDA = EBIT + DEPRECIATION AND AMORTISATION

****CASH EBITDA = REVENUE FROM PURCHASED PORTFOLIOS + RECOVERIES

SOURCE: COMPANY

KRUK GROUP

- 1.1 | KRUK'S MILESTONES
- 1.2 | KRUK'S RELATIONS WITH CUSTOMERS
- 1.3 | KRUK ON THE DEBT MARKET
- 1.4 | AREAS OF ACTIVITY
- 1.5 | KRUK'S MARKETS BY GEOGRAPHY

KRUK GROUP

The KRUK Group is the leader of the debt management market in Central Europe. We started the business 20 years ago as a small Wrocław-based company with a dozen or so employees. Currently, the Group comprises a number of companies offering a comprehensive range of modern, integrated services. We are ready to adapt to the needs and expectations of our partners in seven European countries.

The Group's principal business is the management of debt portfolios purchased for the Group's own account as well as the provision of credit management services to banks, telecommunication operators, insurance companies, and other third parties. Kancelaria Prawna RAVEN and ERIF Biuro Informacji Gospodarczej, two of our subsidiaries, provide support services to the Group. We also develop the NOVUM loan product marketed among our best customers who regularly repay or have already repaid their debt to the Group, and a loan product on the open online services market as part of Wonga's offering.

Our international expansion began in 2007, when KRUK established its presence in Romania. Rapid growth of the business and our success in the country encouraged us to look for growth opportunities in other markets. In 2011, we launched operations in the Czech Republic and Slovakia. Three years later, KRUK Deutschland was established, paving the way to Western Europe. In 2015, we formed two more companies, in Italy and Spain. We purchased our first debt portfolio on the Italian market in the same year, and on the Spanish market – in early 2016.

Also in 2016, we acquired a Polish debt portfolio from P.R.E.-S.C.O., having invested in two million cases with a total nominal value of PLN 2.7bn. With this transaction, we opened a large-scale aftermarket for debt in Poland.

In the same year, we finalised the largest debt purchase transaction in Romania, signing an agreement with the Eurobank Group to acquire a consumer debt portfolio with a nominal value of PLN 2.4bn. Our partner in the transaction was IFC, a member of the World Bank Group. The agreement took us to the top league, where we can work with the world's largest financial institutions.

We strengthened our newly launched operations in Western Europe by acquiring local debt management companies in Italy and Spain. In 2016, we purchased 100% equity interests in Grupo Expand of Spain and Credit Base International of Italy. The companies had a long-standing presence in the markets and we had worked with them before on debt valuation and management. In 2017, we successfully completed the integration of both companies within the KRUK Group. In 2018, we acquired 100% of shares in Agecredit, a credit management company operating in Italy.

Our objective is to further develop our business in the seven European markets, with the expansion supported, among other things, by open revolving credit facilities.

In 2019, Wonga.pl, a company operating on the open online loan market, became the most recent addition to the KRUK Group. The company remains operationally independent, with limited integration with the KRUK Group.

1.1

Kruk's MILESTONES

2000	LAUNCH OF DEBT COLLECTION BUSINESS
2001	INTRODUCTION OF THE SUCCESS-ONLY FEE MODEL IN CREDIT MANAGEMENT
BEGINNINGS OF DEBT PORTFOLIO MARKET IN POLAND – DECISION TO RAISE CAPITAL	
	Kruk BECOMES A LEADER IN CREDIT MANAGEMENT
2003	ENTERPRISE INVESTORS (PEF IV) INVESTS USD 21M IN Kruk
	PURCHASE OF THE FIRST DEBT PORTFOLIO
2005	FIRST DEBT SECURITISATION IN POLAND, OPERATIONS IN WAŁBRZYCH
DECISION TO REPLICATE THE BUSINESS MODEL ABROAD	
2007	EXPANSION INTO THE ROMANIAN MARKET
INNOVATIVE APPROACH TO DEBTORS	
2008	IMPLEMENTATION OF A MASS SETTLEMENT STRATEGY (AMICABLE OR COURT SETTLEMENT)
2010	CHANGES IN LEGAL REGULATIONS – OPERATIONS OF REJESTR DŁUŻNIKÓW ERIF (CREDIT REFERENCE AGENCY)
	ADVERTISING IN THE MEDIA – A MASS COMMUNICATION TOOL
GROWING SUPPLY OF NON-PERFORMING DEBT	
2011	Kruk SHARES FLOATED ON THE WARSAW STOCK EXCHANGE
	ENTRY INTO THE CZECH AND SLOVAK MARKETS
2014	PURCHASE OF THE FIRST LARGE MORTGAGE-BACKED DEBT PORTFOLIO IN POLAND
	ENTRY INTO THE GERMAN MARKET
2015	PURCHASE OF FIRST DEBT PORTFOLIOS IN GERMANY
	ENTRY INTO, AND PURCHASE OF THE FIRST DEBT PORTFOLIO ON, THE ITALIAN MARKET
	ENTRY INTO THE SPANISH MARKET
2016	PURCHASE OF THE FIRST DEBT PORTFOLIO IN SPAIN
	CLOSING OF THE ACQUISITION OF A DEBT PORTFOLIO FROM P.R.E.S.C.O.
	CLOSING OF A TRANSACTION PURSUED WITH THE WORLD BANK IN ROMANIA
2017	EXECUTION OF A EUR 250M REVOLVING FACILITY AGREEMENT WITH A SYNDICATE OF FOUR BANKS TO FINANCE FURTHER GROWTH IN EUROPE
	INTEGRATION OF THE ACQUIRED ITALIAN AND SPANISH COMPANIES WITHIN THE Kruk GROUP COMPLETED
2018	ACQUISITION OF AGE CREDIT, A COMPANY OPERATING ON THE ITALIAN CREDIT MANAGEMENT MARKET
	20TH ANNIVERSARY OF Kruk'S OPERATIONS
2019	ACQUISITION OF WONGA.PL, AN ONLINE CONSUMER LOAN MARKET OPERATOR

1.2

KRUK'S RELATIONS WITH CUSTOMERS

We offer a repayment plan suited to individual circumstances of debtors and help them escape the debt trap. Anyone with a collection account with KRUK may propose their own workable debt repayment terms. We also safeguard compliance with legal rules and social norms requiring that liabilities incurred must be repaid. We use available legal tools where settlement on an amicable basis is not possible. We treat each debtor like a partner, the way we would like to be treated ourselves.

WHAT SETS US APART

CLIENT FOCUS

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

DEBT REPAYMENT IN INSTALMENTS

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

CASE-BY-CASE APPROACH

We approach every case individually. We give advice, explain any difficult issues, assess the client's financial situation together with the client, and work towards optimal solutions.

EDUCATIONAL INITIATIVES

We prepare materials and engage in a number of projects to educate Poles about money and debt. We have launched various initiatives, such as the Day without Debts, Poland's largest annual event encouraging people to pay off their debts.

DEBT IS A TEMPORARY PROBLEM

Over the 20 years of our activity, we have been assisting people in repaying their debts in seven countries across Europe. We know that the inability to stay current on your bills is often a result of life's hardships, such as a job loss, illness, unexpected expenses or even fluctuations in currency exchange rates. Sometimes the reason is that people overestimate their abilities and incur liabilities they cannot later meet.

We also know that indebtedness is a temporary problem that can be overcome. All that is needed is a little bit of effort, willingness, and an honest talk with the consultant. For this reason we offer amicable solutions to people who have fallen into debt with no deceitful or fraudulent intentions and who want advice on how to pay it off. In our amicable approach, we propose negotiations and compromise, workable terms, payment instalments adjusted to match the client's ability to pay, without unnecessary pressure, costly court proceedings, enforcement by bailiff or unwanted en-

tries in the credit report. With our assistance, debtors gradually, step by step, get out of the debt trap and regain control of their finances

We strive to gain an insight into our clients' needs and expectations on a daily basis. We regularly analyse their needs, expectations and satisfaction with the services and solutions we offer. We actively look for new methods and opportunities to provide the most effective assistance to debtors so that they can return to the financial market and rebuild their creditworthiness. We focus our efforts on building long-term, positive relationships with our clients. We know for a fact that if a good relationship with a debtor is established, the case is almost certain to end well. We strive to turn each case into a happy ending.

WE ARE THE MOST RECOGNISABLE COMPANY IN THE INDUSTRY

We are known for our amicable settlement strategy, supported through advertising campaigns run in the media. In the past, the theme of indebtedness and solutions to the debt problem was featured in

- „Ojciec Mateusz”
- „Barwy Szczęścia”
- „M jak Miłość”
- „Na dobre i na złe”

the most popular TV shows on Polish public TV, as part of the KRUK Group's idea placement campaign. Over the years, the growing popularity of our strategy has enhanced the KRUK brand awareness in Central Europe.

Among debt collection companies operating in Poland and Romania, KRUK is the undisputed leader in terms of brand recognition, as shown by the results of a survey* carried out in January 2020 by Norstat, a research institution. Prompted awareness of the KRUK brand (name) was 80% in Poland, 60% in Romania, 5% in the Czech Republic, and 10% in Slovakia.

* CAWI survey carried out by Norstat in Poland, Romania, the Czech Republic and Slovakia

KRUK'S PROMPTED BRAND AWARENESS VS COMPETITORS IN THE DEBT MANAGEMENT SECTOR

POLAND		ROMANIA		CZECH REPUBLIC		SLOVAKIA	
Company		Company		Company		Company	
KRUK	80%	KRUK	60%	COMPETITOR 1	9%	COMPETITOR 1	14%
COMPETITOR 1	32%	COMPETITOR 1	28%	COMPETITOR 2	6%	COMPETITOR 2	11%
COMPETITOR 2	28%	COMPETITOR 3	25%	KRUK	5%	KRUK	10%
COMPETITOR 3	15%	COMPETITOR 2	11%	COMPETITOR 3	5%	COMPETITOR 3	8%
COMPETITOR 4	12%	COMPETITOR 4	9%	COMPETITOR 4	4%	COMPETITOR 4	7%
COMPETITOR 5	10%	COMPETITOR 5	9%	COMPETITOR 5	4%	COMPETITOR 5	5%

SOURCE: NORSTAT INTERNET PANEL SURVEY CARRIED OUT IN POLAND, ROMANIA, THE CZECH REPUBLIC AND SLOVAKIA

KRUK'S LOGO AWARENESS VS COMPETITORS IN THE DEBT MANAGEMENT SECTOR

POLAND		ROMANIA		CZECH REPUBLIC		SLOVAKIA	
Company		Company		Company		Company	
KRUK	72%	KRUK	63%	COMPETITOR 1	9%	COMPETITOR 1	20%
COMPETITOR 1	31%	COMPETITOR 1	30%	COMPETITOR 2	8%	COMPETITOR 2	13%
COMPETITOR 2	28%	COMPETITOR 3	16%	KRUK	7%	COMPETITOR 3	13%
COMPETITOR 3	16%	COMPETITOR 2	14%	COMPETITOR 3	6%	KRUK	11%
COMPETITOR 4	9%	COMPETITOR 4	13%	COMPETITOR 4	5%	COMPETITOR 4	6%
COMPETITOR 5	8%	COMPETITOR 5	12%	COMPETITOR 5	5%	COMPETITOR 5	5%

SOURCE: NORSTAT INTERNET PANEL SURVEY CARRIED OUT IN POLAND, ROMANIA, THE CZECH REPUBLIC AND SLOVAKIA

1.3

KRUK ON THE DEBT MARKET

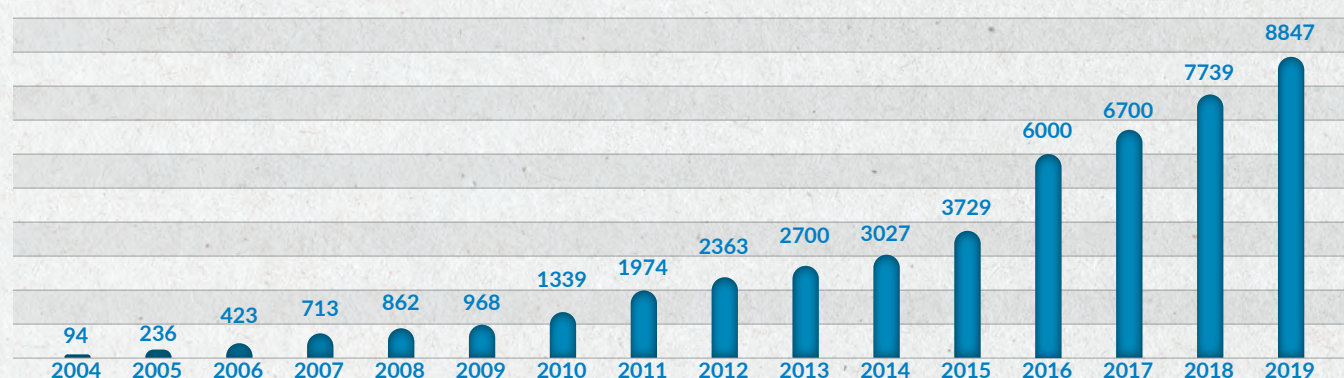
From 2002 to the end of 2019, the KRUK Group purchased 1056 debt portfolios with a total nominal value of approximately PLN 77bn. We purchased debt portfolios in seven countries: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain.

In 2002–2019, we acquired nine million cases, of which over one million were purchased in 2019 alone.

DEBT PORTFOLIO PURCHASING AND SERVICING PROCESS

Auction to sell a debt portfolio		Banks regularly sell debt portfolios to improve their liquidity or to ensure compliance with regulatory requirements and the tax law.
Valuation of debt portfolios by KRUK		Our approach to valuation is based on 17 years experience in purchasing debt portfolios – over 1,000 portfolios purchased and over 3.8 thousand valuations carried out since start of the business
Winning an auction and purchase of a debt portfolio		The debt is purchased at a high discount, usually for 5%–25% of its nominal amount. Initially low success rate in reaching debtors, around 20% on average.
Start of amicable settlement process	Entry into the register of the ERIF credit reference agency and court settlement	Increased debtor reach and recovery at above 2x of the purchase price.

NUMBER OF CASES PURCHASED BY KRUK (CUMULATIVE, '000)



At KRUK, we prepare a thorough analysis and valuation of each debt portfolio presented to us, based on detailed information about the debtors, products involved and related security, debtor behaviour data, as well as information on current and expected macroeconomic conditions in a given market.

The valuation process employs advanced statistical tools and debtor behaviour data accumulated since 2003.

On the Italian and Spanish markets we also use the experience of our local subsidiaries we acquired – Credit Base International and Agecredit in Italy and Grupo Espanol in Spain.

DEBT PORTFOLIOS PURCHASED OVER LAST FIVE YEARS

PLNm	2015	2016	2017	2018	2019
NOMINAL VALUE OF PURCHASED DEBT PORTFOLIOS	4 926	16 440	16 403	8 853	8 274
CUMULATIVE NOMINAL VALUE OF PURCHASED DEBT PORTFOLIOS	26 619	43 059	59 462	68 315	76 589
CASH RECOVERIES	826	992	1 369	1 577	1 782
CUMULATIVE CASH RECOVERIES	3 481	4 473	5 842	7 419	9 201

As a rule, in purchased debt management, our first strategy provides for out-of-court settlement with debtors based on mutually agreed optimum terms of debt repayment reflecting the debtor's current financial capabilities. This approach to debt collection is

effective as it allows the debtor to make instalment payments in amounts which the debtor is able to pay. The court-enforcement procedure is also used in a situation in which a settlement solution is not possible.

1.4

AREAS OF ACTIVITY

KRUK supports debt purchases with ancillary activities described below. Such comprehensive approach comes as an important competitive advantage as it offers numerous synergies and helps mitigate the risks involved with the use of additional statistical information.

Every year, we provide credit management services with respect to one million cases. Many of the portfolios we manage are then sold. Debt management companies that are strong in this segment have the advantage of greater expertise in portfolio purchases.

KRUK manages all types of debt

- consumer
- mortgage
- and corporate

at any stage of the debt collection process

- amicable settlement
- court proceedings

Participation in the credit management market helps us to better price and manage portfolios purchased for our own account.

Portfolio of non-performing debt

Tender for credit management services – selection of debt collection company

Referral and submission of cases for collection with the use of KRUK tools

KRUK collects debt for approximately three months

Transfer of uncollected cases to the debt originator and launch of a new tender

DEBT MONITORING

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

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

The tools we use include:

- phone calls,
- text messages,
- voice messages,
- dunning letters prepared on a case-by-case basis.

AMICABLE DEBT COLLECTION

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

The process involves a range of activities selected on a case-by-case basis. The collection tools we employ vary depending on the type of debt portfolio and the needs of our business partners. For this reason, each debt portfolio accepted for management is subject to analysis. Our unique know-how and understanding of the industry combined with collection activities selected on a case-by-case basis facilitate effective credit management and accurate planning of the collection process. We also manage restructuring processes and execute debt instalments arrangements. Our objective is to reach the client, establish contact and agree on a feasible debt repayment scenario.

The purpose of the amicable collection process is to:

- recover overdue payments as quickly as possible,
- gain insight into a debtor's financial condition and determine viable repayment options,
- verify debtor contact details,
- recover payments from debtors with an unsuccessful collection history.

Advantages of the amicable collection process:

- high rate of success in contacting debtors,
- improved portfolio quality,
- debtor discipline,
- reduced risk of debt ageing.

COURT PROCEEDINGS

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

- alternative dispute resolution focused on reaching amicable settlement;
- handling court proceedings: ordinary, warrant-of-execution and separate proceedings, including in particular payment order, writ of payment, electronic proceedings by writ of payment and simplified procedures;
- legal representation of creditors in the course of insolvency and arrangement proceedings;
- handling the probate process, including in particular identification of the debtor's heirs and initiating proceedings to secure enforcement order against an heir;
- enforcement of secured debt and debt in the SME sector;
- active monitoring of court proceedings;
- due diligence processes, including reviews of client records.

SPECIALISED SERVICES

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

The separate bespoke process used with respect to mortgage-backed debts includes all collection tools available to the KRUK Group. It is dedicated to providing bespoke services and solutions that suit the type of case handled and the large size of debts secured by mortgage. The process is based on non-standard solutions and is aimed at effecting voluntary sale of the property. Our dedicated staff advise and support clients at each stage of the process. In managing mortgage-backed debts, we work with our partners offering property and financial agency services.

Each collection case is carefully analysed to determine the client's financial situation and verify the condition and quality of collateral. Then, depending on the findings, steps are taken to restore regular repayments, arrange credit restructuring, sell the property in the free market or, as a last resort, organise an auction and sell the property as part of enforcement proceedings, or foreclose the property. Our optimal mortgage-backed debt management system ensures efficient debt collection.

ERIF CREDIT INFORMATION AGENCY

The credit information agency ERIF Biuro Informacji Gospodarczej S.A. offers tools for checking the creditworthiness of potential counterparties and disciplining clients who fall in arrears with their payments.

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

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

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

CONSUMER LOANS

There are two entities offering consumer loans within the KRUK Group – NOVUM whose offering is addressed to our best customers who regularly pay or repay their debts to the Group, and Wonga.pl, which joined the Group in 2019 and sell consumer loans through the online delivery channel on the open market.

Both companies operate independently of each other.

TRANSFORMATION TOWARDS LEAN MANAGEMENT AT THE KRUK GROUP

In 2019, the Group continued its development work focused on improving the efficiency of its management system, efficiency of the operational processes, and development of employee skills necessary for the effective implementation and continuous improvement of the key business processes. Across all markets we continued work on implementing and improving the management system based on best Lean Management practices. Lean Management is a strategic approach to the way doing business, focusing the company on providing added value to its clients while consuming as little of the resources needed to generate that value as possible, by emphasizing the use of the talent and ideas of employees at all levels of the organisation. The Group has been implementing Lean since the beginning of 2016, consistently reorganising its business processes and management system. The Lean Management system ensures continuous monitoring of performance and delivery of objectives; the objectives are reviewed on a daily, weekly and monthly basis, depending on the level of the organisational structure and the nature of a given process. The system also supports continuous identification of key operational issues thus enabling their swift resolution. It is also used to plan and implement development projects focused on efficiency, quality and security of business processes. Tangible effects of our improvement efforts include steady increase in the efficiency of key processes, with no rise in employment in the areas responsible for those processes. For the smooth operation of the Lean principal-based management system, it is necessary to develop staff skills with regard to the efficient use of Lean tools and how managers work with their teams. Accordingly, the Group has taken steps to ensure systemic development of its employees' key skills in Lean Management, with a particular focus on the development of the management personnel. A new competence model based on the Lean principles has been implemented and is now used to develop employees skills and assess their competences on an ongoing basis. The objective of the competency development model, launched in 2019, is to ensure that the Group's employees develop their skills in a planned and controlled manner and that the development efforts are focused on the key competences defined in the Group's strategy. In 2019, a dedicated programme, devoted to Lean Leadership best practices, was launched for the Group's Management Board and key managers of the subsidiaries. The programme will be continued in 2020. Our efforts geared towards pursuing the main strategic objective of further development of business bear fruit, as evidenced by the fact that in 2019 the Company collected record-high recoveries from its own portfolios and so we will continue the work in the following years. For further information on Lean transformation, see Section 5.3.3.

1.5

KRUK'S MARKETS BY GEOGRAPHY

The KRUK Group remains a key link in the process of NPL reduction in the balance sheets of banks and other institutions.

In 2019, the Group's primary markets were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain.

We also purchased corporate debts. KRUK was also active in the credit management market in Poland, Romania, the Czech Republic, Spain and Italy.

POLAND		ROMANIA		ITALY		OTHER	
2018	2019	2018	2019	2018	2019	2018	2019
CAPITAL EXPENDITURE							
627	338	148	254	268	99	352	90
REVENUE							
591	602	425	400	69	159	80	91
CARRYING AMOUNT OF THE PORTFOLIO (YEAR-END 2019), TOTAL: PLN 4,197M							

SOURCE: COMPANY

	POLAND	ROMANIA	CZECH REPUBLIC AND SLOVAKIA	GERMANY	ITALY	SPAIN
Number of call centres	4	1	1	*	2	1
FTEs	1851,66	684	175	*	279	273

* - EMPLOYEES THE POLISH-GERMAN ORGANISATION INCLUDED IN TOTAL FOR POLAND FTE EMPLOYMENT - THE NUMBER REFLECTED IN THE COST OF SALARIES, CALCULATED BASED ON FULL TIME JOB EQUIVALENTS RATHER THAN THE ACTUAL NUMBER OF EMPLOYEES. INCLUDES: EMPLOYMENT CONTRACTS, MANAGEMENT SERVICE CONTRACTS, COOPERATION AGREEMENTS, AND CIVIL LAW CONTRACTS. INACTIVE EMPLOYEES (I.E. PERSONS ON LONG-TERM LEAVES, E.G. MATERNITY LEAVES) NOT INCLUDED.

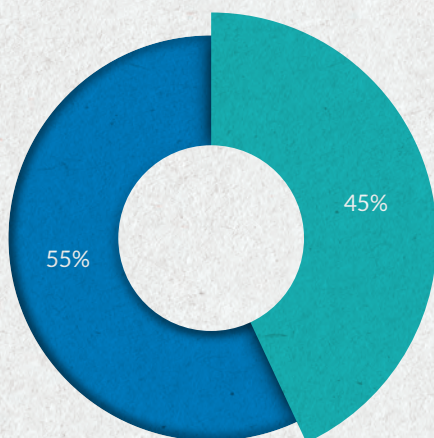
SOURCE: COMPANY

GEOGRAPHICAL SEGMENTS



POLAND

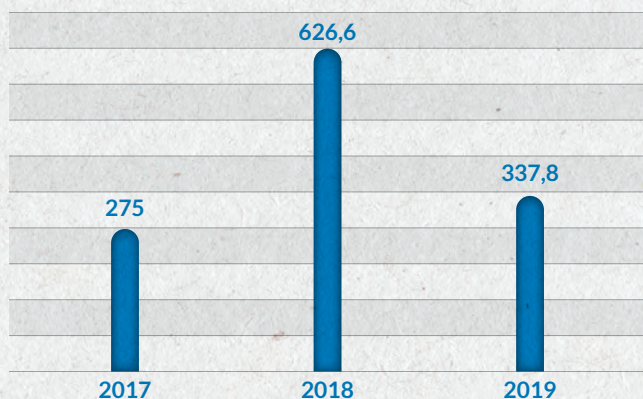
SHARE OF PORTFOLIOS PURCHASED IN POLAND
IN THE CARRYING AMOUNT OF THE TOTAL PORTFOLIO
AS AT DECEMBER 31ST 2019



● Poland

● KRUK Group

INVESTMENTS IN POLAND (PLNM)



The Group estimates that in 2019 the nominal value of debt sold for collection by third parties in Poland was PLN 17.2bn (2018: PLN 11.5bn).

Unsecured consumer debt portfolios, with an aggregate nominal amount of PLN 12.3bn, accounted for the largest share of the total. The amount increased significantly year on year, from PLN 6.6bn in 2018. A large part of the amount represented aftermarket transactions.

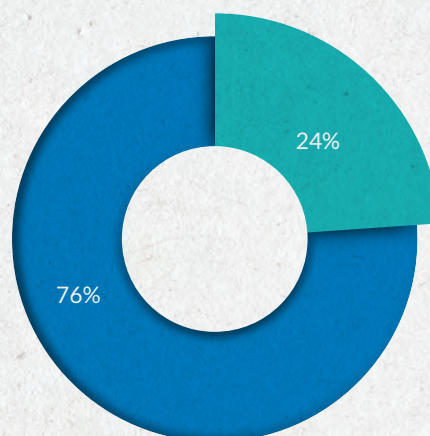
KRUK estimates that the average price of unsecured consumer debt, which is the asset most preferred by KRUK, was approximately 11% (2018: nearly 16%). In the opinion of the KRUK Management Board, Poland's debt purchase market was competitive in 2019, but it continued to offer investment opportunities with acceptable rates of return.

In Poland, the KRUK Group invested PLN 337.8m in debt portfolios with a total nominal value of PLN 3.3bn. Unsecured consumer debt accounted for the largest share of the Group's purchases in Poland. In 2019, KRUK's estimated share in the Polish debt purchase market was 21% in terms of the total value of investments, compared with 33% in 2018, the change reflecting the impact of aftermarket transactions. Net of this one-off transaction, KRUK's share would be close to the share reported for the previous year.



ROMANIA

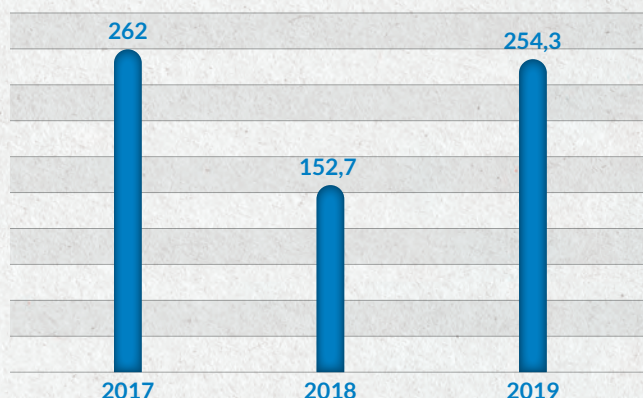
SHARE OF PORTFOLIOS PURCHASED IN ROMANIA
IN THE CARRYING AMOUNT OF THE TOTAL PORTFOLIO
AS AT DECEMBER 31ST 2019



● Romania

● KRUK Group

INVESTMENTS IN ROMANIA (PLNM)



According to the Group's estimates, in 2019 the nominal value of debt sold by Romanian financial institutions for collection by third parties was PLN 3.1bn (2018: PLN 1.8bn). The market is adapting to the changes in taxation of banking institutions enacted in 2018.

Unsecured consumer debt represented the largest share of the total of PLN 3.1bn, accounting for nearly PLN 2.9bn of debt offered for sale, compared with PLN 1.3bn a year earlier.

Our estimates, which take account of aftermarket transactions, put the average prices of debt portfolios in Romania at nearly 11% in 2019. Net of the aftermarket, there were no significant price movements relative to the previous years.

In Romania, KRUK purchased debt portfolios with a total nominal value of PLN 2.6bn for PLN 254.3m. The year before, the amounts were PLN 1.1bn and PLN 148m, respectively. KRUK's share in the debt purchase market was over 75% compared with 60% in 2018.



TOMASZ IGNACZAK
CEO – ROMANIA

It was a very good year for KRUK Romania. In 2019, despite the fact that there were no changes in the restrictive rules governing taxation of the sale of debt portfolios, we maintained our position as the largest investor in debt portfolios in Romania, with the share in excess of 75%. We acquired more than 50 debt portfolios from virtually all market sectors – from unsecured debt to banks to secured corporate debt. There was a 6% year-on-year increase in recoveries

from our own portfolios.

There was also a marked increase in KRUK Romania's revenue from credit management services, with 2019 the best year on record. We found new and large partners, and increased the scale of business with the existing ones.

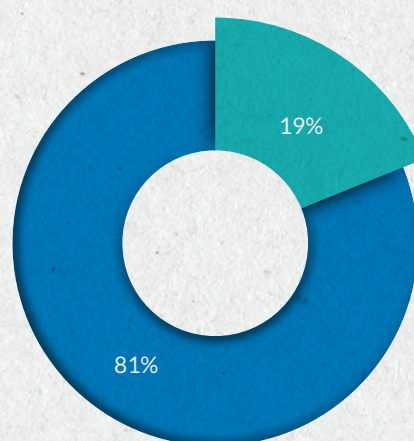
On a less financial note, I am very proud of the Employer of the Year 2019 award. In Romania, we have been building the organization from scratch, so such an award is extremely valuable. The strong market presence is an additional incentive for us to maintain our leading position in each area of the business.

In 2020, while constantly monitoring potential changes in the legal regime, we assume continued business growth in both segments of the market, i.e. debt portfolio purchases and credit management. We focus on continuous improvement of process efficiency that will allow us to deliver new record-high results in 2020.



ITALY

SHARE OF PORTFOLIOS PURCHASED IN ITALY
IN THE CARRYING AMOUNT OF THE TOTAL PORTFOLIO
AS AT DECEMBER 31ST 201

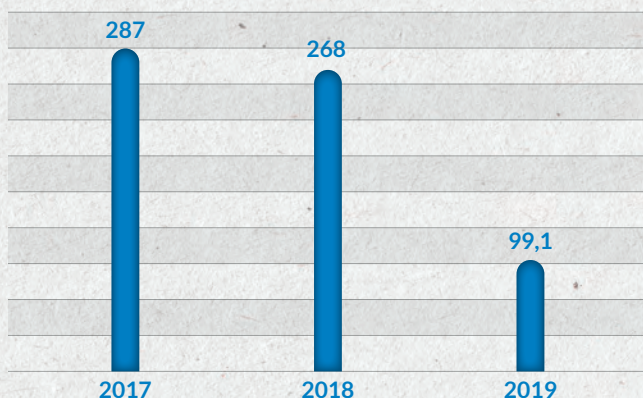


Italy



KRUK Group

INVESTMENTS IN ITALY (PLNM)



We have been present in Italy since 2015, when we established KRUK Italia S.r.l. (a debt management company) and ItaCapital S.r.l. (a special purpose securitisation company). ItaCapital S.r.l.'s principal business activity is investment in debt or debt-backed assets. In 2016, we signed an agreement to acquire Credit Base International, with which we previously cooperated in portfolio valuations and debt management. On the acquisition date, its consolidated revenue in 2015 reached EUR 2.2m. In 2017, we successfully completed the integration of CBI into our structures.

Despite its relatively recent character, the Italian unsecured retail debt market is already one of Europe's largest in terms of nominal value. The Italian market is highly competitive, with portfolios purchased both by debt management companies and financial investors. Most debt portfolios offered by local financial institutions consist of various asset classes, including both unsecured and secured debt. According to our estimates, the total value of the Italian market for unsecured and secured consumer, SME and corporate debt was approximately PLN 66bn in 2019, of which approximately PLN 16bn were aftermarket transactions. On the other hand, the unsecured consumer debt market was close to PLN 30bn. In this asset class, average prices were around 9%.

In the first half of 2019 we scaled back our investment activity in Italy, to renew debt purchases on the market in the second half of the year when we invested PLN 99m in portfolios with a nominal value of PLN 1.3bn. In 2018, we invested PLN 270m in portfolios with a nominal value of PLN 2.0bn.

We estimate our market share in 2019 at around 3%, mainly due to the limited investing activity.



TOMASZ KURR,
CEO – ITALY

In the last five years, Italian banks have reduced their holdings of non-performing assets from EUR 340bn in 2015 to nearly EUR 150bn in mid-2019, that is by over EUR 200bn. Despite this huge supply, the Italian market remains the largest debt market in Europe.

The Italian banking system has taken a decisive step forward to improve the quality of assets, but banks still face regulatory pressure to further reduce the amount of bad loans on their balance sheets.

The high supply is also reflected in the continued presence of global competitors in the country.

Most of the loans sold are still to be recovered, which bodes well for the development of a large aftermarket and further opportunities for investors prepared to service such assets.

In such an environment, you need attention to detail, a good understanding of the market and the ability to calibrate all tools and processes in order to use their potential in the most efficient way. In 2018 we announced development of a fully independent back-to-back system of mass handling of cases at the court stage. Today I can only confirm that the direction taken was the right one and the stream of court cases is becoming more and more important in our processes.

For KRUK Italia, 2019 was primarily about focusing on the operational area and further process improvement. As a result, we strengthened our portfolio of the existing solutions and delivered a record-high number of settlements with debtors.

In 2019, we also launched the e-kruk platform, which already has a growing number of active users,

and the corporate debt line where we achieved our first successes under the guidance of a manager with expertise in this segment of the market.

At AgeCredit S.r.l., a provider of credit management services, we are in the process of implementing changes which are to deliver a net profit in 2021.

At the beginning of the year, based on our experience, we decided to take an even more selective approach to investments and to select those portfolios that offer viable prospects for achieving the assumed returns. As a result, in the fourth quarter we purchased three portfolios whose profiles are well known to us. We were able to use the data that we already have in our databases for valuation purposes, and thus precisely assess the value of the assets.

In 2020, we intend to continue with our approach and to leverage

the operational experience which we have gained since KRUK entered the Italian market. Our plans are ambitious, so we do not focus on individual successes, but consistently pursue the main goal which is high operational efficiency and development of our business across various types of asset classes.



SPAIN

We have been present in Spain since 2015. When we established KRUK España S.L. and carried out the first valuations of portfolios on the Spanish market. In 2016, we purchased the first unsecured consumer portfolios and entered into an agreement to acquire Grupo Espand, a company managing purchased debt portfolios and offering credit management services in Spain, with consolidated revenue of EUR 4.1m in 2015. Earlier, we had cooperated with Espand on portfolio valuations and management of purchased debt portfolios. In 2017, we successfully integrated Grupo Espand into our operational structures.

We estimate that Spain's markets for unsecured retail debt as well as SME and corporate debt are among Europe's largest markets in terms of nominal transaction value, which reached PLN 96bn in 2019. The supply of retail portfolios was PLN 41bn. The main buyers are financial investors, who cooperate with local players in servicing of the purchased debt portfolios. We estimate the average prices of retail portfolios at 5%.

As in Italy, in 2019 KRUK opted for a selective approach to debt purchases and invested nearly PLN 44m in debt portfolios with a nominal value of over PLN 897m. A year earlier, the respective amounts were PLN 304 and PLN 2.2bn. Our market share in 2019 is estimated at 1%.



BARTOSZ KOLEK
CEO – SPAIN

In 2019, we saw strong dynamics in the sizeable Spanish market for unsecured debt. The increase in the number of portfolios from non-banking institutions was a source of high supply throughout the year, culminating in the accumulation of bank debt in the last quarter when the market saw the year's largest project, carried out by one of the leading banks, accounting for 60% of the market's total volume for the year. Mainly due to the supply of increasingly younger portfolios, the average transaction price was higher than in the previous year.

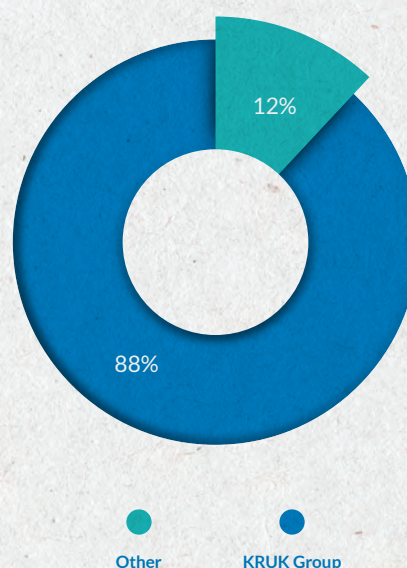
Following high capital expenditure at the end of the previous year, in 2019 our approach to the market was more selective. In the segment of unsecured corporate receivables, we maintained the expenditure at the 2018 level, and collections from this type of assets were in line with our expectations. This increase was a result of earlier collection of certain receivables originally planned for recovery in later years. This strengthens our position in the context of even more ambitious targets for 2020.

In the unsecured retail debt segment, we focused on improving the efficiency of our processes, particularly at the court stage, to which we have referred over 100,000 cases this year alone. This is particularly important for our ability to be competitive in the Spanish market.

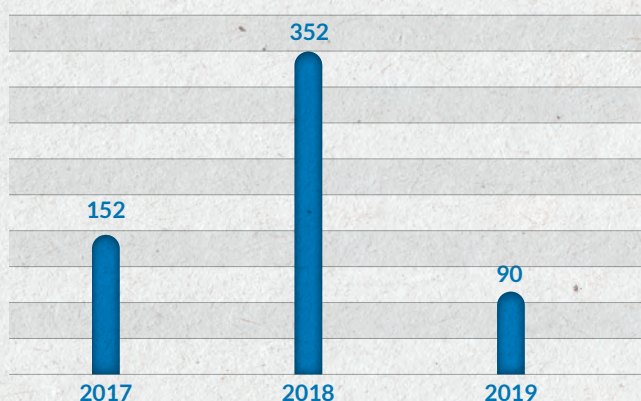
I expect that in 2020 the market for unsecured receivables in Spain will return to the 2018 level, with no large transactions to distort the market coming in the near future. KRUK will maintain its selective approach to portfolio investments, but the steadily increasing efficiency of our operating processes puts us in a much better position as an auction participant.

OTHER MARKETS

SHARE OF PORTFOLIOS PURCHASED IN OTHER MARKETS IN THE CARRYING AMOUNT OF THE TOTAL PORTFOLIO AS AT DECEMBER 31ST 2019



INVESTMENTS IN OTHER MARKETS (PLNM)



GERMANY

In 2019, we did not invest in new portfolios on this market. Debt portfolios purchased on the German market in previous years are handled by a third party.



CZECH REPUBLIC AND SLOVAKIA

According to our estimates, in 2019 the value of consumer debt portfolios sold in the Czech Republic and Slovakia totalled PLN 2.2bn (over PLN 1.1bn and nearly PLN 1.1bn in nominal value, respectively), and was similar to the value reported in 2018. Expenditure on debt portfolios in both markets was PLN 408m in 2019 vs PLN 398m in the previous year. The average prices were 19%.

KRUK invested nearly PLN 46m in both markets in 2019, an increase of PLN 2m year on year. Our market share on both markets is similar at around 11%.



JAROSLAVA PAŁENDALOVÁ

CEO – CZECH REPUBLIC
AND SLOVAKIA

The supply of debt portfolios in the Czech Republic and Slovakia has been limited in recent years. The number of non-performing loans on banks' balance sheets has remained stable for years.

On the Czech market, since 2018 we have been focusing more on our relations with non-bank lenders and we have successfully completed a number of transactions with these entities. The Slovak market, on the other hand, has shrunk in recent years, with bank portfolios being the largest class of available assets (due to the legal regulation of the Consumer Finance sector, only few loan companies remained on the market). For this reason, we focus on the banking sector where we successfully closed several transactions with Slovak banks. Last year, due to the recommendations of the National Bank of Slovakia, we discontinued collection of cases purchased from one of the financial institutions and wrote off PLN 19.1m. From the very beginning of the proceedings conducted by the National Bank of Slovakia, we have adopted an attitude based on dialogue and openness to clarify the situation.

Strong competition, limited size of the markets and emerging regulations require us to continuously improve our operational efficiency and apply optimisation measures.

We are committed to optimising the processes further, in line with the spirit of Lean. In 2019, we implemented a new favourable payment solution for our customers.

The year 2020 will see further work on process optimization and development of client tools. We want to motivate customers in a positive way so that they pay their debts regularly.

The new Slovak law on enforcement proceedings is an important theme for us in 2020. We believe that we are well prepared for the changes.

The proper functioning on these markets in the coming years will require continuous market monitoring and the ability to take advantage of any emerging opportunities.



GENERAL INFORMATION

- 2.1 | GENERAL INFORMATION ON THE PARENT
- 2.2 | CONSOLIDATED FINANCIAL AND OPERATING HIGHLIGHTS
- 2.3 | OVERVIEW OF THE GROUP'S BUSINESS IN 2019

This Section presents key information on the KRUK Group, its selected consolidated financial and operating data, as well as an overview of the Group's business in 2019.

2.1

GENERAL INFORMATION ON THE PARENT

FORM OF INCORPORATION

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 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.

[G4-3] [G4-5] [G4-7]

PARENT CONTACT DETAILS

Name: KRUK SPÓŁKA AKCYJNA

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

Telephone: + 48 71 79 02 800

Fax: +48 71 79 02 867

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

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

2.2

CONSOLIDATED FINANCIAL AND OPERATING HIGHLIGHTS

2.2.1

KEY CONSOLIDATED FINANCIAL RESULTS

In 2019, the Group's revenue was PLN 1,251m (7% increase year on year), operating profit was PLN 433m (8% decrease year on year) and net profit was PLN 277m (16% decrease year on year).



THE GROUP'S REVENUE WAS

1 251 m

(7% increase year on year)



OPERATING PROFIT WAS

443 m

(8% decrease year on year)



NET PROFIT WAS

277 m

(16% decrease year on year).

YEAR ENDED DEC 31

TABLE 1. KRUK GROUP'S FINANCIAL RESULTS IN 2018–2019

	2019	2018	CHANGE
(PLN '000, UNLESS STATED OTHERWISE)			
REVENUE	1251 056	1164 811	7%
EBITDA	486 753	502 911	-3%
OPERATING PROFIT (EBIT)	442 710	482 988	-8%
NET PROFIT FOR THE PERIOD	277 057	330 412	-16%
CASH FLOWS FROM OPERATING ACTIVITIES, INCLUDING	208 642	-402 050	-152%
DEBT PURCHASES	-780 998	-1 394 581	-44%
CASH RECOVERIES	1782 443	1576 775	13%
CASH FLOWS FROM INVESTING ACTIVITIES	-136 978	-26 204	423%
CASH FLOWS FROM FINANCING ACTIVITIES	-68 692	402 271	-117%
TOTAL NET CASH FLOWS	2 972	-25 982	-111%
TOTAL ASSETS	4 839 914	4 482 177	8%
EQUITY	1 958 426	1 732 354	13%
RETURN ON EQUITY (ROE)	14%	19%	-
EARNINGS PER SHARE (PLN)			
BASIC	14,61	17,51	-17%
DILUTED	14,30	17,09	-16%

SOURCE: CONSOLIDATED FINANCIAL STATEMENTS
 RETURN ON EQUITY (ROE) = NET PROFIT FOR THE PERIOD / TOTAL EQUITY

TABLE 2. CHANGE IN PURCHASED DEBT PORTFOLIOS IN 2019

PLN '000

VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2017	3 120 562
IMPACT OF CHANGES IN ACCOUNTING POLICIES FOLLOWING APPLICATION OF IFRS 9	29 582
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT JAN 1 2018	3 150 144
PURCHASE OF DEBT PORTFOLIOS	1 394 581
PURCHASE PRICE ADJUSTMENT FOR DISCOUNT	(245)
CASH RECOVERIES	(1 576 775)
INCREASE/(DECREASE) IN LIABILITIES TO DEBTORS DUE TO OVERPAYMENTS	589
VALUATION OF LOYALTY SCHEME	6 283
PAYMENTS FROM ORIGINAL CREDITOR	(5 452)
REVENUE FROM PURCHASED DEBT PORTFOLIOS (INTEREST AND REVALUATION)	1 069 997
TRANSLATION DIFFERENCES ON DEBT PORTFOLIOS	38 596
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2018	4 077 718
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT JAN 1 2019	4 077 718
PURCHASE OF DEBT PORTFOLIOS	780 998
CASH RECOVERIES	(1 782 443)
INCREASE/(DECREASE) IN LIABILITIES TO DEBTORS DUE TO OVERPAYMENTS	4988
VALUATION OF LOYALTY SCHEME	4 456
REVENUE FROM PURCHASED DEBT PORTFOLIOS (INTEREST AND REVALUATION)	1 138 338
TRANSLATION DIFFERENCES ON DEBT PORTFOLIOS	(27 234)
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2019	4 196 821

SOURCE: CONSOLIDATED FINANCIAL STATEMENTS

2.3

OVERVIEW OF THE GROUP'S BUSINESS IN 2019

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

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

The Group's presence in both segments is an important competitive advantage as it offers operational synergies and helps

mitigate the risk related to debt portfolio purchases thanks to additional statistical information obtained from the credit management business. Banks are the main group of the KRUK Group's business partners.

As at the end of 2019, FTE (full-time employment) at all KRUK Group companies (Polish and foreign) was 3262.66, compared with 3184.12 at year-end 2018.

TABLE 3. KRUK GROUP'S WORKFORCE (FTES*) IN 2018–2019 (DECEMBER 2018 AND DECEMBER 2019, POLISH AND FOREIGN COMPANIES)

FTES*	
2019	2018
3262.66	3 184.12

** FTE EMPLOYMENT – THE NUMBER REFLECTED IN THE COST OF SALARIES, CALCULATED BASED ON FULL TIME JOB EQUIVALENTS RATHER THAN THE ACTUAL NUMBER OF EMPLOYEES. INCLUDES: EMPLOYMENT CONTRACTS, MANAGEMENT SERVICE CONTRACTS, COOPERATION AGREEMENTS, AND CIVIL LAW CONTRACTS. INACTIVE EMPLOYEES (I.E. PERSONS ON LONG-TERM LEAVES, E.G. MATERNITY LEAVES) NOT INCLUDED.

SOURCE: COMPANY

2.3.1

FINANCIAL RESULTS

In 2019, the Group's revenue increased 7% year on year, to PLN 1,251m. In the same period, the KRUK Group's net profit was PLN 277m, a decrease of 16% year on year. Return on equity (ROE) was 14%, compared with 19% in the previous year. For detailed analysis of the financial results, see Section 4.2. Analysis of the consolidated financial data.

Table 4 presents the key elements of the statement of profit or loss for the last five years. Since 2015, the Group's revenue has increased 105% (CAGR of 20%) and net profit by 36% (CAGR of 8%). Over the same period, EBIT and EBITDA have increased by 75% and 85%, respectively.

TABLE 4. KRUK GROUP'S FINANCIAL RESULTS IN 2015–2019

(PLN '000)	2019	2018	2017	2016	2015	CAGR '19/'15
REVENUE	1 251 056	1 164 811	1 055 453	783 398	611 234	20%
EBITDA	484 382	498 194	439 449	362 561	261 919	17%
OPERATING PROFIT*	442 710	482 988	422 832	345 753	252 980	15%
PROFIT BEFORE TAX*	314 210	352 540	335 184	286 348	209 777	11%
NET PROFIT	277 057	330 412	295 198	248 677	204 261	8%

*WITHOUT OTHER OPERATING INCOME AND EXPENSES
SOURCE: CONSOLIDATED FINANCIAL STATEMENTS

2.3.2

KEY FINANCIAL RATIOS

The table below presents the key profitability ratios of the KRUK Group in 2015–2019.

TABLE 5. PROFITABILITY RATIOS OF THE KRUK GROUP IN 2015–2019

	2019	2018	2017	2016	2015
EBITDA MARGIN**	39%	43%	42%	46%	43%
EBIT MARGIN**	35%	41%	40%	44%	41%
PRE-TAX MARGIN	25%	30%	32%	37%	34%
NET PROFIT MARGIN	22%	28%	28%	32%	33%
RETURN ON ASSETS (ROA)	6%	7%	8%	8%	11%
RETURN ON EQUITY (ROE)*	14%	19%	20%	24%*	26%

*EQUITY EXCLUSIVE OF SERIES G SHARES ISSUED IN DECEMBER 2016.

**PROFIT WITHOUT OTHER OPERATING INCOME AND EXPENSES

SOURCE: IN-HOUSE ANALYSIS BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS.

The year-on-year decline in the Group's profitability in 2019 was attributable to slower revenue growth (including slower growth of other income and finance income) (8% year on year), while costs increased 16% year on year. The slower revenue growth was attributable, among other things, to lower increase in measurement of debt portfolios, impairment of the debt collection subsidiaries in Italy and recognised a provision for the difference between the by Wonga.pl applied method of reimbursement and the straight-line reimbursement. The total amount of the remeasurement was PLN 46m less year on year, including a PLN 19m year-on-year negative effect of foreign exchange gains/losses. For detailed analysis of the financial ratios, see Section 4.2. Analysis of the consolidated financial data.

2.3.3

OPERATING ACTIVITIES

As at the end of 2019, the KRUK Group managed 7.7m debt cases (in purchased portfolios and as part of credit management services), compared with 7.1m at the end of 2018. The nominal value of managed debts as at the end of 2019 was PLN 85.6bn, compared with PLN 80.9bn at the end of 2018. The increase in value results from both the number of cases purchased and cases outsourced for management by third parties. Summary of the operating results is presented below.

TABLE 6. SUMMARY OF OPERATING RESULTS AS AT THE END OF 2019 AND 2018

	Dec 31 2019	Dec 31 2018
NUMBER OF MANAGED CASES (MILLIONS)	7.7	7.1
NOMINAL VALUE OF MANAGED CASES (PLNBn)	85.6	80.9

SOURCE: COMPANY

2.3.4

INVESTMENTS IN DEBT PORTFOLIOS

The increase in the nominal value of managed debts in 2019 resulted mainly from significant investments made in 153 debt portfolios with an aggregate nominal value of PLN 8.3bn and a total of more than 1m cases. In 2019, KRUK invested PLN 0.8bn in bank and non-bank portfolios, comprising secured and unsecured consumer debts and corporate debts. To compare, in 2018 KRUK purchased 197 debt portfolios with a total nominal value of PLN 8.9bn for PLN 1.395m.

In 2019, the Group purchased portfolios in Poland and five foreign markets: Romania, the Czech Republic, Slovakia, Spain, and Italy. The expenditure outside Poland amounted to PLN 443m (compared with PLN 768m in 2018). Summary data for debt portfolio purchases in 2018–2019 is presented below.

TABLE 7. SUMMARY OF DEBT PORTFOLIOS PURCHASED IN 2019 AND 2018

	2019	2018
NUMBER OF PURCHASED DEBT PORTFOLIOS	153	197
NOMINAL VALUE OF PURCHASED DEBT PORTFOLIOS (PLNm)	8 274	8 853
EXPENDITURE ON DEBT PORTFOLIOS (PLNm)	781	1395

SOURCE: COMPANY

KRUK made its largest investments in Poland (43% of the total). Together with Romania, the two markets accounted for 76% of the investments made in 2019. KRUK also made investments in Italy, Spain, the Czech Republic and Slovakia.

Ultimately, KRUK intends to further diversify its investment portfolio, with Poland accounting for a major portion of total expenditure.

TABLE 8. EXPENDITURE IN 2019 AND 2018, BY COUNTRY (PLNM)

COUNTRY	2019	2018
POLAND	338	627
ROMANIA	254	148
CZECH REPUBLIC AND SLOVAKIA	46	44
ITALY	99	268
GERMANY	0	4
SPAIN	44	304
TOTAL	781	1395

SOURCE: COMPANY

2.3.5

CREDIT MANAGEMENT SERVICES

Throughout 2019, the nominal value of debts outsourced to the Group for collection was PLN 15.6bn (compared with PLN 13.8bn in 2018). In 2019, banks were the Group's main business partners in the credit management segment. Credit management services remain an important element of the Group's strategy as they are profitable and generate synergies with the debt purchase segment.

2.3.6

OTHER PRODUCTS AND SERVICES

As part of its loss prevention services and to support debt management, the KRUK Group operates ERIF Biuro Informacji Gospodarczej (a credit reference agency), which collects both negative and positive consumer and corporate credit histories. ERIF operates under the Act on Access to Business Information and Exchange of Business Information, which defines the rules of operation of a business information exchange system in Poland. ERIF is one of the six business information agencies, but the only such agency in Poland to have its database reviewed quarterly by an independent auditor. Its consistent information policy ensures comparability, consistency and reliability of statistical data on the status and structure of the ERIF BIG database for all stakeholder groups in Poland.

As at January 2nd 2020, the ERIF database contained 80m cases (including 76.7m positive credit information reports), showing debts with a total nominal amount of more than PLN 48.6bn. To compare, at the end of 2018 the ERIF database contained 53m records (including 50m positive credit information records), covering debts with a total nominal amount of PLN 42.6bn. In 2019, revenue derived by BIG from the provision of information services was PLN 11m, 7% less than in the previous year.

As part of its diversification of revenue sources, in 2019 the KRUK Group continued to provide short-term cash loans to the best customers of KRUK who timely meet their obligations towards the Group on the Polish and Romanian markets, and in April 2019 acquired Wonga.pl, an online provider of consumer loans. The carrying amount of loans advanced by Wonga increased from PLN 87.4m as at the acquisition date to PLN 167.9m as at the end of the year, with revenue at that time of PLN 36m. Wonga is reimbursing early repayment fees charged since 2012, i.e. since the start of its operations. In connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of reimbursement, the Company recognised a provision for the difference between the applied method of reimbursement and the straight-line reimbursement. In 2019, the KRUK Group advanced 151.2 thousand cash loans for a total gross amount of PLN 345m. Revenue from the cash loan service was PLN 49m, an increase of 228% year on year.



KRUK GROUP

DESCRIPTION

3.1 | BUSINESS MODEL

3.2 | STRUCTURE

3.3 | SHARE CAPITAL

3.4 | HUMAN CAPITAL

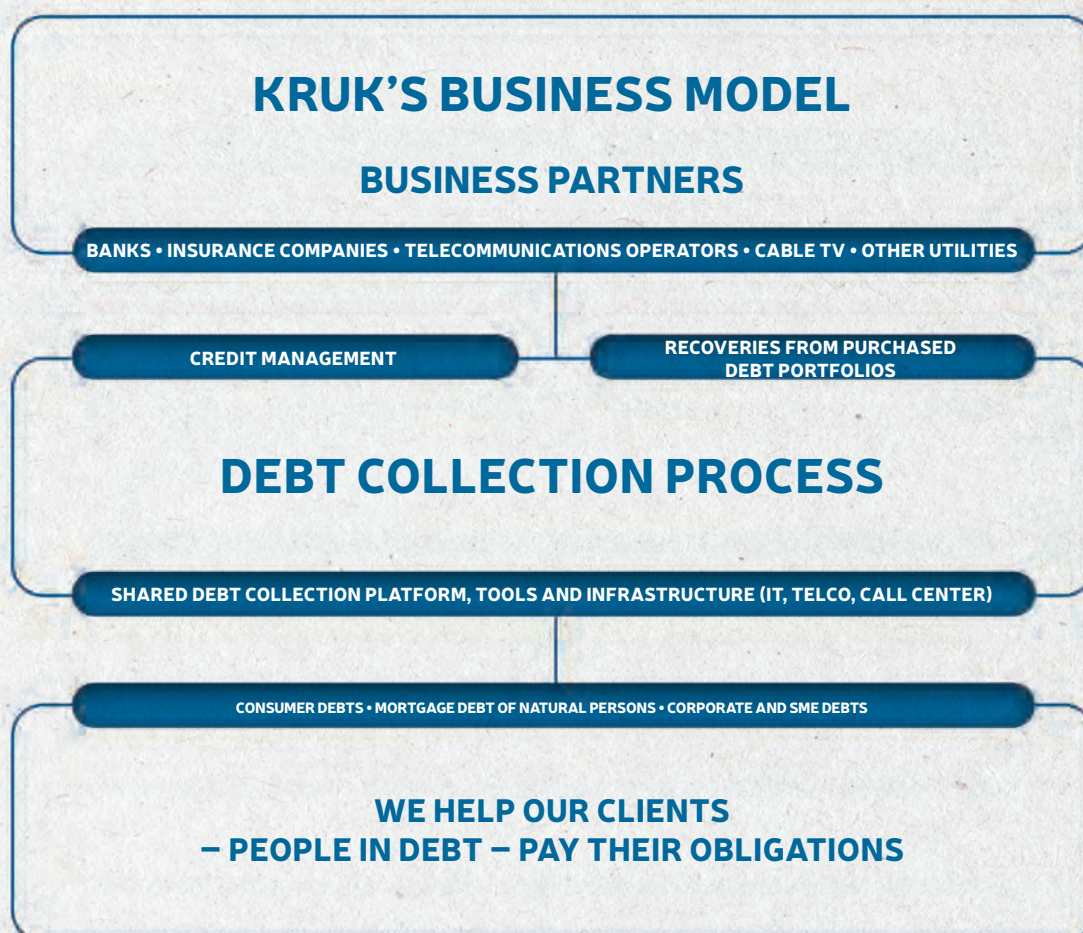
3.1

BUSINESS MODEL

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

- consumer debts (retail, unsecured),
- mortgage debts (retail, secured),
- corporate debts (mortgage-backed and non-mortgage-backed).

We manage receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. We focus our activities on the banking market, where our business is based on long-term relations with the key partners.



Our debt management business is supported by the law firm Kancelaria Prawna RAVEN, a member of our Group, and by ERIF BIG, a credit reference agency. We also offer NOVUM loans,

a product dedicated for our best customers who regularly pay or have paid off their debt to the Group.

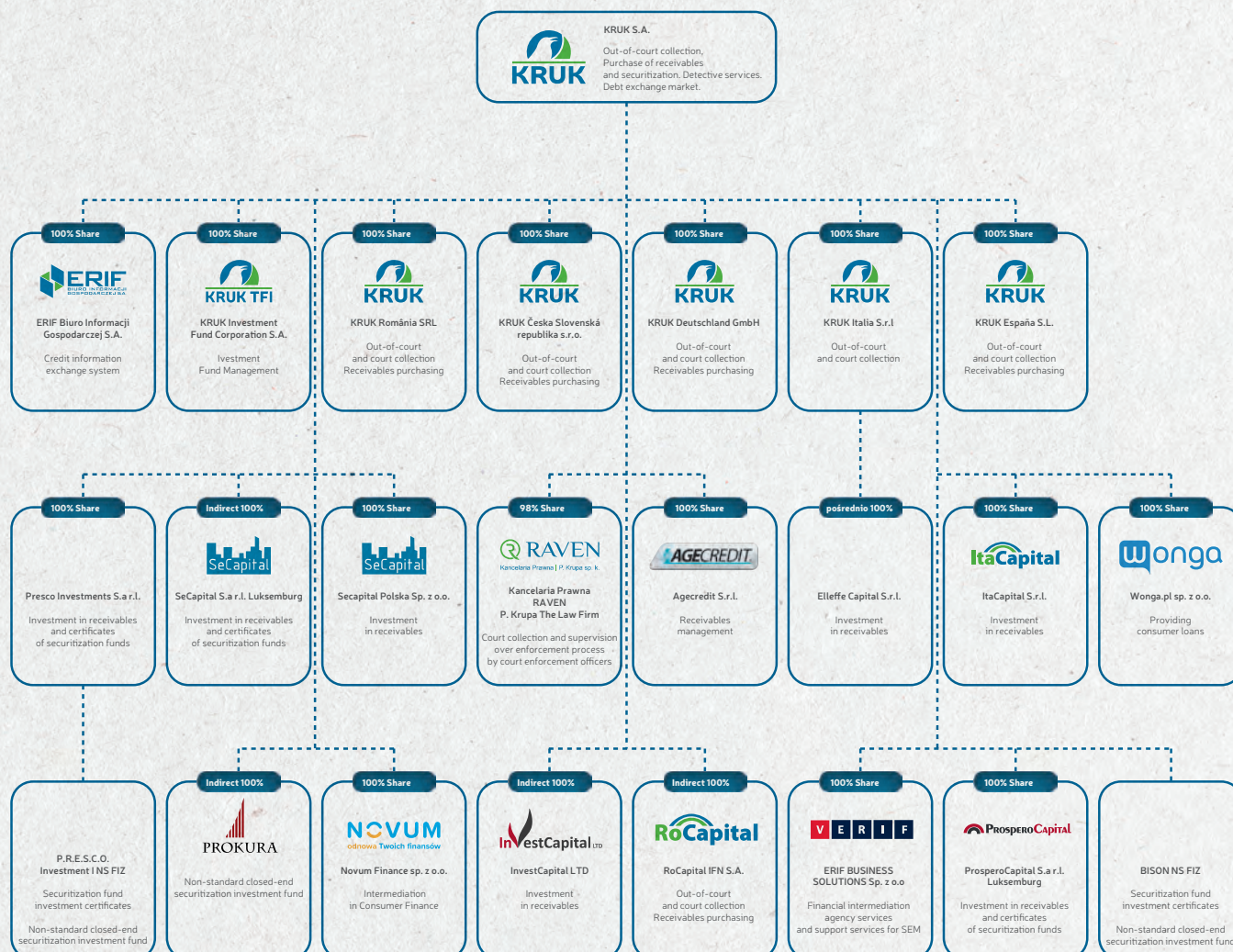
3.2

STRUCTURE

3.2.1

DESCRIPTION OF THE GROUP'S STRUCTURE

The structure of the Kruk Group as at December 31st 2019 and Kruk S.A.'s ownership interests in the subsidiaries are presented below.



SOURCE: COMPANY

FIGURE 1. STRUCTURE OF THE KRUK GROUP

As at December 31st 2019, the Group comprised KRUK S.A. (the Parent) and 23 subsidiaries. The subsidiaries are presented below.

TABLE 9. 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 based on 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 ČESKA A SLOVENSKA 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 ESPAÑA S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading
PROSPEROCAPITAL S.A 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 based on professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Presco Investments S.a r.l.

PRESKO 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
AGECREDIT S.R.L.	Cesena	Credit management company operating in Italy
Bison NS FIZ (closed-end investment fund)	Wrocław	Fund based on professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Kruk S.A.
WONGA.PL SP. Z O.O.	Warsaw	Company operating in the consumer lending market

Source: The Kruk Group

[G4-4] [G4-6] [G4-8] [G4-9] [G4-17]

The Company has twelve field offices located in Warsaw, Gdańsk, Elbląg, Toruń, Katowice, Łódź, Kraków, Rzeszów, Poznań, Szczecin, 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.

3.2.2

CHANGES IN THE GROUP'S STRUCTURE IN 2019

Below are presented changes in the Group's structure that occurred in 2019 and in since the beginning of 2020.

On April 30th 2019, Kruk and Wonga Worldwide Limited (in administration) of Manchester concluded an agreement on sale of all shares in Wonga.pl Sp. z o.o. of Warsaw.

On July 15th 2019, Kruk S.A. signed an agreement to sell 100% of shares in Zielona Perła sp. z o.o. to Phoenix- Construction Engineering&Management sp. z o.o.

3.2.3

CHANGES IN THE GROUP'S SIGNIFICANT MANAGEMENT POLICIES

In 2019, there were no changes to any significant management policies of the Parent and its subsidiaries.

3.2.4

CONSOLIDATED ENTITIES

All Group entities are fully consolidated.

3.2.5

COMPANY BRANCHES

The Company has no branches

3.3

SHARE CAPITAL

3.3.1

SHARE CAPITAL STRUCTURE

As at December 31st 2019 and the issue date of this report, the Company's share capital totalled PLN 18,971,811 and was divided into 18,971,811 shares with a par value of PLN 1 per share.

TABLE 10. THE COMPANY'S SHARE CAPITAL AS AT DECEMBER 31ST 2019 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	227 595
Series G	1 000 000
TOTAL	18 971 811

SOURCE: COMPANY

3.3.2

CHANGES IN THE SHARE CAPITAL AND CONDITIONAL SHARE CAPITAL

The table below presents changes in the share capital of KRUK S.A. in 2019

TABLE 11. CHANGES IN THE SHARE CAPITAL OF KRUK S.A. IN 2019

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 15th 2019	43 796	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18 930 655	Issue as part of conditional share capital increase,
November 26th 2019	41 156	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18 971 811	Issue as part of conditional share capital increase,

3.4

HUMAN CAPITAL

3.4.1

QUALIFIED PERSONNEL

One of the key success factors of the KRUK Group is its highly qualified and experienced management and specialist staff. The Group employs specialists with extensive debt management experience.

The table below presents the Management Board of KRUK S.A.

TABLE 12. THE MANAGEMENT BOARD OF KRUK S.A.

**PIOTR KRUPA****CEO AND PRESIDENT OF THE MANAGEMENT BOARD**

Co-founder of the Company, CEO and President of its Management Board since 2003. Graduate of the Faculty of Law and Administration at the University of Wrocław (1996). Mr Krupa completed legal training in court and is a legal counsel and a licensed detective.

He started his professional career in 1997 as a partner in Kuźnicki i Krupa s.c. A year later, he set up a legal publishing house KRUK, with a friend from college. Soon he noticed a promising market niche that became the foundation of his future business achievements. He changed the company's business profile and focused on debt management.

Today he is the CEO and shareholder of the largest debt management group in Central Europe, which is growing fast in Poland, Romania, the Czech Republic, Slovakia, Germany, Italy and Spain.

**MICHAŁ ZASEPA****MEMBER OF THE MANAGEMENT BOARD**

Member of the Supervisory Board of KRUK S.A. from 2005 to 2010. Member of the Company's Management Board since 2010. In 2000, he graduated from the Warsaw School of Economics, with a degree in management and marketing. In 1996-1997, he studied at the University of Wisconsin as part of the Batory Foundation Scholarship, and in 1999 at the Stockholm School of Economics.

At the KRUK Group, he is responsible for finance, risk, portfolio valuations and investor relations.



AGNIESZKA KUŁTON

MEMBER OF THE MANAGEMENT BOARD

With Kruk since 2002. Member of the Management Board since 2006. Graduate of the Faculty of National Economy at the University of Economics in Wrocław (1995). In 2013, she completed MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio.

At the Kruk Group, she is responsible for the management of purchased debt portfolios.



URSZULA OKARMA

MEMBER OF THE MANAGEMENT BOARD

With Kruk since 2002. Member of the Management Board since 2006. In 1998, she graduated from the Faculty of National Economy at the University of Economics in Wrocław, with a degree in finance and banking.

At the Kruk Group, she is responsible for strategic transactions, relations with business partners and credit management services.



IWONA SŁOMSKA

MEMBER OF THE MANAGEMENT BOARD

With Kruk since 2004. Member of the Management Board since 2009. Graduate of the Faculty of Social Sciences of the University of Wrocław (1995). In 2000, she completed Polish-American Studies in Social Communication in Organisation and Management at the Wrocław University of Technology, and in 2010 – MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio.

At the Kruk Group, she is responsible for human resources, marketing and PR, legal services and compliance, as well as security of personal data.

SOURCE: COMPANY

Members of the Company's Management Board and other key personnel of the Group are a strong team of over one hundred experts in such areas as credit management, finance, high-volume process management, debt portfolio valuation, legal support, sales, HR management, IT, marketing, and public relations. The stability of the Group's management team, manifest in low staff turnover, combined with extensive expertise developed over the years, are a source of major competitive advantage for the Group. The Management Board and key managers are also covered by an attractive incentive scheme. More than 11% of the shares are held by Management Board members. The Company has not issued any employee shares.

In 2019, as part of the recruitment and Employer Branding activities at the KRUK Group, various activities were carried out to increase KRUK's recognition as an employer in local markets:

1. Promotion of KRUK as the employer of first choice and quick filling of vacant positions to ensure business continuity, with measures taken including:
 - continuous activities in the scientific and student circles, including cooperation with Career Offices and student societies at Wrocław-based academic institutions (University of Wrocław and University of Economics),
 - lectures and workshops delivered by employees of the KRUK Group's Polish subsidiaries (e.g. financial analysis workshops at the Wrocław University of Technology, BI and Lean analysis workshops for students of the Wrocław University of Economics, classes on statistics for students of the Faculty of Mathematics and Information Technology of the University of Wrocław, lectures on Agile transformation, workshops for IT specialists at Wrocław-based companies);
 - participation in career days at Italian universities in Pisa, Genoa and La Spezia;
 - execution of partnership agreements with three Romanian universities (in Bucharest and Targoviste) to conduct KRUK Legal Academy 2019 classes during the academic year 2018-2019;
 - participation in job fairs and events for potential job candidates (including: Career Expo, Careers and Internship Fair at Wrocław University, Campus Recruitment Career Fair at Wrocław Technical University, JOBICON);
 - maintaining corporate profiles by the Group companies in various social media on the local markets: career tab on the corporate website, job portals, LinkedIn, creation and maintenance of fanpages by local subsidiaries, running a regular Facebook campaign promoting KRUK as an employer,
 - starting cooperation with IT industry portals (NoFluffjobs and Bulldogjob) and participation in industry events as a main partner (RUN for IT, IT conference '4Developers');
 - managing candidate experience, i.e. the experience of candidates participating in recruitment processes.
2. monitoring trends on the labour market and changes in the Company's business environment through a cyclical Employer Value Proposition survey (most recently in May 2019) and promoting corporate culture and values through social media, recruitment portals, face-to-face interviews and outdoor activities.

3. caring for the development and needs of the employees, including through ongoing monitoring of the level of salaries and benefits on the market and implementation of optimal solutions in this respect, as well as holding pro-health campaigns among the Group's employees.

Last year, KRUK Romania obtained Certificate of Excellence as No. 1 among employers in Romania in 2019, awarded by one of Romania's most popular platforms on which employees and candidates evaluate employers (www.undelucram.ro). Wonga.pl received the Friendly Workplace Award 2019 from MarkaPracodawców.pl for its relations with employees, attitude of openness and transparency in communication, as well as for its policy of work-life balance.

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

TABLE 13. GROUP'S WORKFORCE AS AT DECEMBER 2019 AND 2018 (FTEs*)

FTEs	
2019	2018
3 262,66	3 184,12

SOURCE: COMPANY

The table below presents the Group's employment data in FTEs (employment contracts and other forms of employment or co-operation) by geography (Poland and other markets).

TABLE 14. GROUP'S WORKFORCE (FTE*) BY GEOGRAPHICAL REGION IN DECEMBER 2019 AND DECEMBER 2018

GEOGRAPHICAL REGIONS	2019	2018
POLAND **	1 851,66	1 795,00
FOREIGN MARKETS	1 411	1 389,12
TOTAL	3 262,66	3 184,12

* FTEs – THE NUMBER REFLECTED IN THE COST OF SALARIES, CALCULATED BASED ON FULL TIME JOB EQUIVALENTS RATHER THAN THE ACTUAL NUMBER OF EMPLOYEES, INCLUDES: EMPLOYMENT CONTRACTS, MANAGEMENT SERVICE CONTRACTS, COOPERATION AGREEMENTS, AND CIVIL LAW CONTRACTS. INACTIVE EMPLOYEES (I.E. PERSONS ON LONG-TERM LEAVES, E.G. MATERNITY LEAVES) NOT INCLUDED.

** INCLUDES WONGA.PL

SOURCE: COMPANY

Number of employees by type of employment contract and gender

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
INTERNSHIPS	11	6	17
CONTRACT OF EMPLOYMENT	2003	1318	3321
COOPERATION AGREEMENT	56	31	87
MANAGEMENT SERVICE CONTRACT	8	9	17
SELF-EMPLOYMENT	0	5	5
TOTAL	2078	1369	3447

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

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
CONTRACT OF EMPLOYMENT	1787	1156	2856
COOPERATION AGREEMENT	52	32	84
CONTRACT	3	3	6
TOTAL	1842	1191	2946

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

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
MANAGERS, DIRECTORS, CEO	237	196	433
OTHER	1777	1159	2936
TOTAL	2014	1355	3369

[G4-10][G4-LA12]

The competent and committed team represents a significant asset of the KRUK Group. Therefore, we take actions aimed at developing our employees and providing them with optimal working conditions.

In 2019, the Group operated:

- a management training programme for the Group's management staff, designed to develop management skills and expand the necessary knowledge. In 2019, a development programme was launched for new managers (100 dni manadżera).
- an extensive internal training system, designed to improve the personnel's knowledge of the Lean system, sales techni-

ques, negotiating skills and knowledge of legal and psychological aspects of the debt collection process;

- the Trainers Academy based on the knowledge and skills of our employees, which they shared with the organization as trainers.

The Group also operates a remuneration and employment management policy, which is a component of informed planning of employee remuneration and is designed to control the increase in employment levels in line with the Group's strategy. The policy applies to all of the Group's employees and forms the foundation for an effective, uniform and transparent remuneration system designed to support the implementation of business objectives.

3.4.2

INCENTIVE SCHEME**INCENTIVE SCHEME FOR 2015–2019**

The 2015–2019 incentive scheme was approved by Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014 (2015–2019 Incentive Scheme). It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011–2014 Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015–2019 Scheme is addressed to the key management personnel of KRUK S.A. and the other Group companies. Under the scheme, 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 Scheme, the General Meeting approved a conditional increase of 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.

Warrants are to be issued in five tranches, one for each of the following years 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 on the basis of the Group's consolidated financial statements) increases at a CAGR of no less than 13% relative to the base year.

By resolution of September 8th 2014, the Supervisory Board defined and approved the Rules for the 2015–2019 Incentive Scheme.

Details of the 2015–2019 Incentive Scheme 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 Incentive Scheme for offering subscription warrants under Tranche 1 for 2015 had been satisfied.

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 Incentive Scheme.

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 27th 2016. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 1 subscription warrants under the 2015–2019 Scheme. On October 27th 2016, 20,000 subscription warrants were delivered to the Eligible Persons who were Management Board members.

By the issue date of this report, 82,574 Tranche 1 warrants were converted into new Series F shares. Thus, 23,861 Tranche 1 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 the resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 2 for 2016 had been satisfied.

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 Incentive Scheme. 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 determining the list of Management Board members eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 2 subscription warrants under the 2015–2019 Incentive Scheme. On August 22nd 2017, 50,480 subscription warrants were delivered to the eligible Management Board members.

By the issue date of this report, 94,308 Tranche 2 warrants were converted into new Series F shares. 47,639 Tranche 2 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 30,650 of those warrants are held by Management Board members.

TRANCHE 3

By resolution dated May 11th 2018, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 3 for 2017 had been satisfied.

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 determining the list of Management Board members eligible to acquire Tranche 3 subscription warrants for 2017 under the 2015–2019 Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015–2019 Incentive Scheme. On September 17th 2018, 54,344 subscription warrants were delivered to eligible Management Board members.

By the issue date of this report, 50,713 Tranche 3 warrants were converted into new Series F shares. 89,484 Tranche 3 subscription warrants, entitling their holders to subscribe for the same number of Series F shares, continue to be held by eligible persons. 54,344 of those warrants are held by Management Board members.

TRANCHE 4

By resolution dated July 15th 2019, the Supervisory Board declared that the condition set forth in the Incentive Scheme for offering subscription warrants under Tranche 4 for 2018 had been satisfied.

On July 16th 2019, the Management Board passed a resolution containing the list of Management Board members eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015–2019 Incentive Scheme. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 3 subscription warrants under the 2015–2019 Incentive Scheme. On September 10th 2019, 89,768 Subscription Warrants were delivered to eligible Management Board members.

On July 24th 2019, the Management Board passed a resolution containing the list of persons who are not Management Board members and are eligible to acquire Tranche 4 subscription warrants for 2018 under the 2015–2019 Incentive Scheme. On this basis, on July 25th 2019, the Management Board invited eligible persons other than Management Board members to acquire Tranche 4 subscription warrants. As a result, 115,528 subscription warrants were delivered to the eligible persons on August 27th 2019.

TABLE 15. NUMBER OF SUBSCRIPTION WARRANTS HELD BY MANAGEMENT BOARD MEMBERS AS AT DECEMBER 31ST 2019

NAME AND SURNAME	POSITION	NUMBER OF WARRANTS HELD UNDER TRANCHEs 1, 2, 3 AND 4 FOR 2015, 2016, 2017 AND 2018
Piotr Krupa	CEO and President of the Management Board	52 940
Agnieszka Kulon	Member of the Management Board	40 413
Urszula Okarma	Member of the Management Board	40 413
Iwona Słomska	Member of the Management Board	27 248
Michał Zasępa	Member of the Management Board	27 248



OPERATING

AND FINANCIAL REVIEW

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4.1

POLICIES APPLIED IN THE PREPARATION OF FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

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

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

The policies applied to prepare the consolidated financial statements are described in the financial statements.

4.2

ANALYSIS OF THE CONSOLIDATED FINANCIAL DATA

4.2.1

REVENUE BY PRODUCT

The main sources of revenue for the KRUK Group are credit management services and debt purchase activities. Revenue from debt purchase includes interest income plus revenue from the difference on recoveries (difference between actual and assumed cash recoveries), and effects of debt portfolio revaluations, resulting primarily from a change in estimates of expected cash inflows from a given portfolio. Revenue from credit management services includes primarily commissions for collection of debt managed by the Group. The Group also generates revenue on consumer loans, which it grants to persons indebted to the KRUK Group who have repaid or regularly repay their debts, as well as to persons who have not yet been customers of the KRUK Group.

The table below presents historical cash recoveries from purchased debt portfolios according to their share in the expenditure incurred on their purchase.

TABLE 16. WEIGHTED AVERAGE RECOVERY CURVE IN 2005–2019*

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	TOTAL
CASH RECOVERIES IN EACH OF THE YEARS AS % OF FUNDS INVESTED	14%	32%	31%	31%	32%	30%	31%	29%	28%	29%	23%	17%	17%	19%	8%	371%

SOURCE: COMPANY

* The assumed recovery amount for portfolios purchased in 2005–2019 relative to the expenditure incurred during that period is 2.3x. The recovery amount is the aggregate of historical recoveries and forecast future recoveries, presented in note 16 'Investments' to the financial statements.

Gross return rates on investments made in 2019 were estimated at over 24%, compared with 22% on investments made in 2018 as estimated at the time of purchase (gross IRR calculated as internal rate of return on collections and expenditure).

The Group's total revenue for 2019 was PLN 1,251m, an increase of 7% on 2018. The Group continued to pursue the strategy of consolidating its lead in the growing debt collection market. In 2019, revenue from purchased debt portfolios was PLN 1,138m, which represented an 6% year-on-year increase. The growth was mainly attributable to a 13% year-on-year increase in collections from purchased portfolios across the KRUK Group, which in 2019 were PLN 1.78bn, the highest ever amount. Recoveries in Poland and Romania account for the largest share of the KRUK Group's total and rose nearly 7% year on year. The fourth quarter of 2019 saw a significant, 46% year-on-year increase in recoveries on the Italian market. Credit management revenue in 2019 decreased by 23% year on year, to PLN 52m. The largest year-on-year decline in

revenue from debt collection services was recorded on the Italian market (revenues account by PLN -1,1m, down by PLN 12m) and was attributable to the recognition of a full impairment loss on Italian companies (AgeCredit S.r.l. and KRUK Italia S.r.l., providers of credit management services), due to the losses incurred by the companies in 2019. At the same time, in 2019 the Group took steps to restore, by 2021, operating profitability of the subsidiaries in the credit management segment.

In the other foreign markets, revenue from debt collection services decreased by PLN 6m, or 32% year on year. In Romania, revenue from debt collection services increased by PLN 4m, or 37% year on year. The Group's other products generated revenue of PLN 61m, an increase of 121% year on year. PLN 36m increase in revenue from other products was attributable to Wonga, which was acquired by the Kruk Group in April 2019.

Results of each reportable segment are discussed below. Gross profit is the key performance metric for each reportable segment.

TABLE 17. RESULTS OF INDIVIDUAL REPORTABLE SEGMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2019	POLAND		ROMANIA	ITALY	OTHER FOREIGN MARKETS	HEAD OFFICE	TOTAL
	Poland excluding Wonga.pl ³	Wonga.pl ³					
REVENUE	565 719	36 032	399 844	158 856	90 606	—	1 251 057
PURCHASED DEBT PORTFOLIOS	516 297	—	385 069	159 967	77 005	—	1 138 338
INCLUDING REVALUATION OF DEBT PORTFOLIOS	35 709	—	103 783	(13 995)	(64 533)	—	60 964
CREDIT MANAGEMENT SERVICES	25 447	—	14 161	(1 111)	13 601	—	52 098
OTHER PRODUCTS	23 975	36 032	614	—	—	—	60 621
DIRECT AND INDIRECT COSTS	—	—	—	—	—	—	(586 022)
PURCHASED DEBT PORTFOLIOS	—	—	—	—	—	—	(477 676)
CREDIT MANAGEMENT SERVICES	—	—	—	—	—	—	(53 374)
OTHER PRODUCTS	—	—	—	—	—	—	(54 973)
GROSS PROFIT¹	—	—	—	—	—	—	665 034
PURCHASED DEBT PORTFOLIOS	—	—	—	—	—	—	660 663
CREDIT MANAGEMENT SERVICES	—	—	—	—	—	—	(1 276)
OTHER PRODUCTS	—	—	—	—	—	—	5 648
ADMINISTRATIVE EXPENSES	—	—	—	—	—	—	(178 282)
EBITDA ²	318 158	(9 723)	294 151	(6 830)	(37 883)	(71 119)	486 753
DEPRECIATION AND AMORTISATION	—	—	—	—	—	—	(44 043)
OTHER INCOME	—	—	—	—	—	—	8 687
OTHER EXPENSES (UNALLOCATED)	—	—	—	—	—	—	(11 056)
FINANCE INCOME/COSTS	—	—	—	—	—	—	(126 130)
PROFIT BEFORE TAX	—	—	—	—	—	—	314 210
INCOME TAX	—	—	—	—	—	—	(37 153)
NET PROFIT	—	—	—	—	—	—	277 057
CARRYING AMOUNT OF DEBT PORTFOLIOS	1 883 927	—	994 380	811 754	506 760	—	4 196 821
CARRYING AMOUNT OF LOANS	41 254	167 898	5 465	—	—	—	214 617
CASH RECOVERIES	820 300	—	560 524	184 605	217 013	—	1 782 443

1. GROSS PROFIT = OPERATING INCOME - OPERATING EXPENSES, 2. EBITDA = OPERATING PROFIT - DEPRECIATION AND AMORTIZATION, 3. WONGA.PL DATA FROM THE SHARE PURCHASE AGREEMENT DATE, I.E. APRIL 30TH 2019 A REVIEW OF OVERHEAD EXPENSES IN POLAND WAS CARRIED OUT AT THE BEGINNING OF 2019, LEADING TO A CHANGE IN HOW OVERHEAD EXPENSES OF THE HEAD OFFICE ARE ALLOCATED AMONG THE INDIVIDUAL COUNTRIES, WITH THE CHANGE EFFECTIVE FROM JANUARY 2019 THE EBITDA FOR 2019 INCLUDES THE EFFECT OF IMPLEMENTING IFRS 16

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2018	POLAND		ROMANIA	ITALY	OTHER FOREIGN MARKETS	HEAD OFFICE	TOTAL
	Poland, excl. Wonga.pl ³	Wonga.pl ³					
REVENUE	591 085	—	424 688	68 929	80 109	—	1 164 811
PURCHASED DEBT PORTFOLIOS	537 972	—	413 947	57 866	60 212	—	1 069 997
INCLUDING REVALUATION OF DEBT PORTFOLIOS	80 439	—	—	—	—	—	80 439
CREDIT MANAGEMENT SERVICES	26 123	—	10 320	11 063	19 897	—	67 403
OTHER PRODUCTS	26 990	—	421	—	—	—	27 411
DIRECT AND INDIRECT COSTS	—	—	—	—	—	—	(500 918)
PURCHASED DEBT PORTFOLIOS	—	—	—	—	—	—	(437 328)
CREDIT MANAGEMENT SERVICES	—	—	—	—	—	—	(52 602)
OTHER PRODUCTS	—	—	—	—	—	—	(10 988)
GROSS PROFIT¹	—	—	—	—	—	—	663 893
PURCHASED DEBT PORTFOLIOS	—	—	—	—	—	—	632 669
CREDIT MANAGEMENT SERVICES	—	—	—	—	—	—	14 801
OTHER PRODUCTS	—	—	—	—	—	—	16 423
ADMINISTRATIVE EXPENSES	—	—	—	—	—	—	(160 981)
EBITDA ²	330 615	—	328 019	(66 102)	(30 942)	(58 678)	502 911
DEPRECIATION AND AMORTISATION	—	—	—	—	—	—	(19 923)
OTHER INCOME	—	—	—	—	—	—	4 876
OTHER EXPENSES (UNALLOCATED)	—	—	—	—	—	—	(9 594)
FINANCE INCOME/COSTS	—	—	—	—	—	—	(125 731)
PROFIT BEFORE TAX	—	—	—	—	—	—	352 540
INCOME TAX	—	—	—	—	—	—	(22 128)
NET PROFIT	—	—	—	—	—	—	330 412
CARRYING AMOUNT OF DEBT PORTFOLIOS	1 841 927	—	932 228	742 915	506 648	—	4 077 718
CARRYING AMOUNT OF ADVANCED LOANS	40 807	—	3 257	—	—	—	44 064
CASH RECOVERIES	767 508	—	527 700	126 021	155 546	—	1 576 775

In 2019, the Group's gross profit was PLN 665m, having remained broadly unchanged year on year. From purchased debt portfolios, the KRUK Group earned revenue of PLN 1,138m, i.e. PLN 68m more year on year. The largest revenue growth (by PLN 102m year on year, or 176%) was seen on the Italian market. In the other foreign markets, revenue increased by PLN 17m, or 28%. The Polish and Romanian markets, which account for the

largest part of the total revenue from purchased portfolios, reported year-on-year decline in the revenue, by PLN 22m, or 4%, and PLN 29m, or 7%, respectively. The two markets generated total revenue of PLN 901m, i.e. 79% of the total revenue from purchased debt portfolios. The KRUK Group's total revenue from purchased debt portfolios rose by 6% year on year, with a 4% year-on-year increase in gross profit in this segment of the business.

Gross margin in the credit management segment fell by PLN 16m (109%) on the previous year, and was negative (PLN -1m). This was mainly due to a PLN 15m decline in revenue from credit management services. The largest year-on-year drop in revenue (by PLN 12m) from credit management was seen in Italy and resulted from recognition of a full impairment loss on the Italian subsidiaries. Gross profit on other products offered by the Group decreased by PLN 11m, or 66%, year on year. This was mainly attributable to a negative gross margin on Wonga loans (PLN -6m) and the gross margin on Novum loans being lower by PLN 4m.

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

4.2.2

REVENUE BY GEOGRAPHICAL MARKETS

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

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

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

In 2019, the KRUK Group recorded the largest revenue growth in Italy, although revenue growth was also seen in Poland and other markets.

Where revenue rose by PLN 90m on 2018, a 130% increase year on year. In Poland, revenue increased by PLN 11m, or 2%, year on year. In other markets, revenue expanded by PLN 10m, or 13%, year on year.

The revenue growth was mainly driven by high recoveries from own portfolios and, in Poland, by revenue from loans advanced by Wonga.pl, acquired by the KRUK Group in April 2019. In 2019, recoveries from own debt portfolios increased by 13% year on year. Investments in own portfolios were 44% lower than in 2018, mainly due to the selective approach to purchases (with preference given to portfolios offering higher returns) and a temporary scale-back of investments in Italy and Spain, where the Group focused on the existing portfolios and further improvement of the operating processes.

4.2.3

STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's total assets were PLN 4,840m, having expanded by 8% on year-end 2018.

TABLE 18. STRUCTURE OF THE GROUP'S ASSETS

AS AT DECEMBER 31ST 2019 PLN '000	NOTE	DEC 31 2019	DEC 31 2018
CASH AND CASH EQUIVALENTS	20	150 274	147 302
TRADE RECEIVABLES	19	23 988	28 143
INVESTMENTS	16	4 411 438	4 121 782
INVESTMENT PROPERTY	17	34 655	35 188
OTHER RECEIVABLES	19	31 852	23 088
INVENTORIES		37	197
PROPERTY, PLANT AND EQUIPMENT	13	82 973	26 354
GOODWILL	15	47 206	62 010
OTHER INTANGIBLE ASSETS	14	50 252	33 877
DERIVATIVES	25	4 219	1 450
OTHER ASSETS	21	3 020	2 786
TOTAL ASSETS		4 839 914	4 482 177
SOURCE: COMPANY			

The largest increase was seen in Investments, driven mainly by debt portfolio purchases and the acquisition of Wonga.

The project involved additional financing or use of the available revolving facilities, which resulted in a PLN 206m increase in bank borrowings and other debt instruments.

TABLE 19. STRUCTURE OF THE GROUP'S EQUITY AND LIABILITIES

AS AT DECEMBER 31ST 2019	NOTE	DEC 31 2019	DEC 31 2017
LIABILITIES			
DERIVATIVES	25	3 924	3 870
TRADE AND OTHER PAYABLES	27	101 303	176 054
EMPLOYEE BENEFIT OBLIGATIONS	26	49 539	44 678
INCOME TAX PAYABLE		6 673	15 600
LIABILITIES UNDER BORROWINGS, DEBT SECURITIES AND LEASES	24	2 705 727	2 500 043
PROVISIONS	28	7 156	-
DEFERRED TAX LIABILITY	18	6 498	9 182
TOTAL LIABILITIES		2 880 821	2 749 427
EQUITY			
SHARE CAPITAL	22	18 972	18 887
SHARE PREMIUM		307 192	300 097
CASH FLOW HEDGING RESERVE		78	(3 869)
EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS		(30 219)	(53 769)
OTHER CAPITAL RESERVES		104 582	94 924
RETAINED EARNINGS		1 557 821	1 376 084
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		1 958 426	1 732 354
NON-CONTROLLING INTERESTS		667	396
TOTAL EQUITY		1 959 093	1 732 750
TOTAL EQUITY AND LIABILITIES		4 839 914	4 482 177

SOURCE: COMPANY

4.2.4

FINANCIAL RESULTS

There are no material risks to the KRUK Group's current or future financial position. In 2019, the Group's net profit was PLN 277m, having decreased by PLN 53m, or 16%, year on year.

In 2019, the Group invested PLN 781m debt portfolios, i.e. 44% less than in 2018, which was attributable to the selective approach to

portfolio purchases (focus on portfolios offering higher returns), temporary scale-back of the investing activity in Italy and Spain, and lower-than-expected supply of debt portfolios in Poland. The largest investments were made in in Poland and Romania, which markets accounted for 43% and 33% of the Group's expenditure on debt portfolios, respectively.

TABLE 20. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31ST 2019 PLN '000	NOTE	Jan 1-Dec 31 2019	Jan 1-Dec 31 2018
CONTINUING OPERATIONS			
REVENUE	5	1 251 056	1 164 811
INCLUDING INTEREST INCOME ON DEBT PORTFOLIOS CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD		976 883	873 403
INCLUDING INTEREST INCOME ON OTHER FINANCIAL INSTRUMENTS CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD		87 444	14 459
OTHER INCOME	6	8 687	4 876
		1 259 743	1 169 687
EMPLOYEE BENEFITS EXPENSE	9	(356 998)	(309 694)
DEPRECIATION AND AMORTISATION	13,14	(44 043)	(19 923)
SERVICES	7	(152 389)	(152 035)
OTHER EXPENSES	8	(265 974)	(209 764)
		(819 404)	(691 416)
OPERATING PROFIT		442 710	482 988
FINANCE INCOME	10	211	148
FINANCE COSTS	10	(126 341)	(125 879)
NET FINANCE COSTS		(126 129)	(125 731)
PROFIT BEFORE TAX		314 210	352 540
INCOME TAX	11	(37 153)	(22 128)
NET PROFIT FOR THE PERIOD		277 057	330 412
NET PROFIT ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		276 390	330 016
NON-CONTROLLING INTERESTS		667	396
NET PROFIT FOR THE PERIOD		277 057	330 412
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		276 390	330 016
NON-CONTROLLING INTERESTS		667	396
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		277 057	330 412
EARNINGS PER SHARE			
BASIC (PLN)	23	14,61	17,51
DILUTED (PLN)	23	14,30	17,09

SOURCE: COMPANY

4.2.5

CASH FLOWS

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

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

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

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

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

4.2.6

MATERIAL OFF-BALANCE SHEET ITEMS BY COUNTERPARTY, SUBJECT MATTER AND VALUE

The KRUK Group did not have any material off-balance sheet items in 2019.

4.2.7

FINANCIAL RATIOS**PROFITABILITY RATIOS**

The table below presents the key profitability ratios of the KRUK Group.

TABLE 21. PROFITABILITY RATIOS

PROFITABILITY RATIOS PERIOD ENDED	Dec 31 2019	Dec 31 2018
EBITDA MARGIN*	39%	43%
EBIT MARGIN*	35%	41%
PRE-TAX MARGIN	25%	30%
NET MARGIN	22%	28%
RETURN ON ASSETS (ROA)	6%	7%
RETURN ON EQUITY (ROE)	14%	19%

SOURCE: COMPANY

FORMULAS USED TO CALCULATE THE RATIOS:

EBITDA MARGIN – OPERATING PROFIT FOR THE PERIOD + DEPRECIATION/AMORTISATION / TOTAL REVENUE

EBIT MARGIN – OPERATING PROFIT FOR THE PERIOD / TOTAL REVENUE

PRE-TAX MARGIN – PROFIT BEFORE TAX FOR THE PERIOD / TOTAL REVENUE

NET MARGIN – NET PROFIT FOR THE PERIOD / TOTAL REVENUE

ROA – NET PROFIT FOR THE PERIOD / TOTAL ASSETS

RETURN ON EQUITY (ROE) – NET PROFIT FOR THE PERIOD / EQUITY

* PROFIT WITHOUT OTHER OPERATING INCOME AND EXPENSES

In 2019, the KRUK Group's net margin and EBIT margin both fell 6pp year on year. Return on equity (ROE) and the pre-tax margin decreased by 5pp, while return on assets (ROA) decreased by 1pp.

In 2019, the year-on-year decrease in profitability was driven by a 16% year-on-year increase in costs (costs and income tax incre-

ased by 17% year on year); during the period, revenue increased by 8%. The slower revenue growth was attributable, among other things, to lower increase in measurement of debt portfolios and to impairment of the debt collection subsidiaries in Italy.

The total amount of the remeasurement was PLN 46m less year on year, including a PLN 19m year-on-year negative effect of foreign exchange gains/losses. Costs increased primarily on higher court fees, salaries and employee benefits. The net margin was further affected by a recognised provision connected with Wonga.pl and a PLN 15m year-on-year increase in income tax.

As at year-end 2019, equity was 13% higher year on year.

The Group's assets rose 8% relative to the end of 2018. With the largest increase seen in Investments (by PLN 290m, or 7%), which was attributable to the purchase of new debt portfolios and the acquisition of Wonga.

DEBT RATIOS

The table below presents the key debt ratios of the KRUK Group.

TABLE 22. DEBT RATIOS

PERIOD ENDED	Dec 31 2019	Dec 31 2018
TOTAL DEBT RATIO	59%	61%
DEBT TO EQUITY RATIO	146%	159%
NET DEBT TO EQUITY RATIO	1,3x	1,4x
NET DEBT TO CASH EBITDA RATIO	2,3x	2,3x
CURRENT RATIO	11,0	8,2
QUICK RATIO	11,0	8,2

SOURCE: COMPANY

FORMULAS USED TO CALCULATE THE RATIOS:

TOTAL DEBT RATIO – TOTAL LIABILITIES / TOTAL EQUITY AND LIABILITIES

DEBT TO EQUITY RATIO – TOTAL LIABILITIES / TOTAL EQUITY

NET DEBT TO EQUITY RATIO = (LONG-TERM AND SHORT-TERM LIABILITIES UNDER BORROWINGS AND OTHER DEBT INSTRUMENTS – CASH AND CASH EQUIVALENTS) / TOTAL EQUITY

NET DEBT TO CASH EBITDA RATIO = (LONG-TERM AND SHORT-TERM LIABILITIES UNDER BORROWINGS AND OTHER DEBT INSTRUMENTS – CASH AND CASH EQUIVALENTS) / CASH EBITDA

CURRENT RATIO – TOTAL CURRENT ASSETS / TOTAL CURRENT LIABILITIES

QUICK RATIO – (TOTAL CURRENT ASSETS – INVENTORIES) / TOTAL CURRENT LIABILITIES

The Group's objective is to maintain a solid capital base to ensure business growth, while maintaining the trust and confidence of investors, lenders, bondholders and other partners. In order to control the Group's exposure to financial debt, the Management Board of KRUK S.A. monitors the debt ratios on an ongoing basis.

In 2019, the ratios changed only slightly and, in the Management Board's opinion, remained at safe levels. For instance, debt ratios measured for the entire Group, specified in the Terms and Conditions of Bonds, were as follows: the net debt to equity ratio

stood at 1.3 (the maximum level is 2.5x for debt issues with a total nominal value of PLN 45m due in December 2020, or 3.0 in other issues for which financial covenants have been defined), and the net debt to cash EBITDA ratio: 2.3 (the maximum level is 4.0x).

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

4.3

SECURITIES IN ISSUE

4.3.1

COMPANY SHARES

For information on the Company shares, see Section 3.3.2. Changes in share capital and conditional share capital.

4.3.2

COMPANY BONDS

In 2019, the Company carried out four bond issues with a total nominal value of PLN 215m. Two bond series, with a total nominal value of PLN 165m, were offered to institutional investor, and the issue price of each bond was equal to its nominal value of PLN 1,000. Two bond series with a total nominal value of PLN 50m were offered to retail investor, and the issue price of each bond was equal to its nominal value of PLN 100 (the bonds were as part of the Sixth Bond Issue Programme).

BOND ISSUES IN 2019

SERIES	NOMINAL VALUE	ISSUE DATE	DUE DATE	INTEREST	INTEREST PAYMENT
AG2	PLN 25m	February 2019	February 2024	3M WIBOR + 3.50%	every 3 months
AE4	PLN 115m	March 2019	March 2025	3M WIBOR + 4.00%	every 3 months
AH ¹	PLN 50m	June 2019	June 2025	3M WIBOR + 4.00%	every 3 months
AJ ¹	PLN 25m	September 2019	September 2024	3M WIBOR + 3.50%	every 3 months
total	PLN 215m				

SOURCE: COMPANY

REDEMPTION OF BONDS

In 2019, the Company redeemed the debt securities specified in the table below, on the maturity dates set forth in the terms and conditions of the relevant series.

BONDS REDEEMED IN 2019

SERIES	DUE DATE	NUMBER OF BONDS REDEEMED	NOMINAL VALUE
AD ¹	June 2019	50 000	PLN 50m
AA ³	August 2019	20 000	EUR 20m
AA ⁵	October 2019	75 000	PLN 75m

SOURCE: COMPANY

LIABILITIES UNDER BONDS

As at December 31st 2019, liabilities under outstanding bonds were PLN 1,362m (at nominal value.)

FINANCIAL RATIOS MONITORED PURSUANT TO THE TERMS AND CONDITIONS OF THE BOND ISSUE

As at December 31st 2019:

Debt Ratio was 1.3

Net Debt to Cash EBITDA ratio was 2.3

where:

Cash EBITDA is defined in the Glossary of Terms

Equity means the KRUK Group's equity;

Debt Ratio means: Net Financial Debt to Equity;

Net Financial Debt represents the KRUK Group's Financial Liabilities less the KRUK Group's cash;

The **Financial Covenants** are defined in the Glossary

4.4

FINANCIAL INSTRUMENTS

4.4.1

USE OF FINANCIAL INSTRUMENTS

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

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

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

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

Derivatives

In 2019, the KRUK Group companies executed new and amended the existing master agreements for derivative transactions. The table below presents the master agreements as at December 31st 2019.

AGREEMENT	BANK	COMPANY	AGREEMENT DATE	TRANSACTION LIMIT	COLLATERAL AND OTHER SECURITY
Master agreement governing transaction execution and settlement	Santander Bank Polska S.A.	KRUK S.A. i InvestCapital Ltd.	Jun 13 2019	PLN 70,000,000	- power of attorney to debit KRUK S.A.'s accounts with the Bank - blank promissory note with promissory note declaration
Master agreement governing execution of financial market transactions	DNB Bank Polska S.A.	KRUK S.A.	Mar 8 2019	EUR 10,200,000	- notarised representation on submission to enforcement by KRUK S.A.
Master agreement governing execution of financial market transactions	DNB Bank Polska S.A.	InvestCapital Ltd.	Feb 28 2019		- guarantee (poręczenie) provided by KRUK S.A. - notarised representation on submission to enforcement by KRUK S.A.
Master agreement governing execution of forward currency transactions	ING Bank Śląski S.A.	KRUK S.A.	Aug 9 2018	EUR 15,000,000	- none
Master agreement governing execution of financial market transactions	mBank S.A.	KRUK S.A.	Feb 7 2019	PLN 5,000,000	- power of attorney to debit KRUK S.A.'s accounts with the Bank - blank promissory note with promissory note declaration

SOURCE: COMPANY

Based on the master agreements and available treasury limits, in 2019 the Group companies entered into transactions to hedge currency and interest rate risks.

Terms of individual transactions are determined pursuant to criteria defined in the Group's internal risk management policies and based on current exposure to particular risk types.

Open contracts as at December 31st 2019:

BANK	COMPANY	TYPE OF TRANSACTION	VOLUME	SIDE OF TRANSACTION - BUY /SALE OF FIXED RATE	FIXED RATE	VARIABLE RATE	TERM
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 100,000,000.00	buy	3,06%	3.1% + 3M WIBOR	January 9th 2017 to June 4th 2021
Santander Bank Polska S.A.	KRUK S.A.	CCIRS	PLN 90,000,000.00	buy	2,97%	3.0% + 3M WIBOR	January 13th 2017 to November 10th 2021
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 150,000,000.00		2,50%	3M WIBOR	November 7th 2017 to March 2nd 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	2,50%	3M WIBOR	November 7th 2017 to May 4th 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 75,000,000.00	buy	1,67%	3M WIBOR	September 5th 2019 to October 18th 2022
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 30,000,000.00	buy	1,65%	3M WIBOR	September 5th 2019 to November 27th 2023
Santander Bank Polska S.A.	KRUK S.A.	IRS	PLN 25,000,000.00	buy	1,65%	3M WIBOR	September 5th 2019 to February 6th 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 35,000,000.00	buy	1,6050%	3M WIBOR	September 4th 2019 to October 12th 2023
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 115,000,000.00	buy	1,5775%	3M WIBOR	September 4th 2019 to September 27th 2024
DNB Bank Polska S.A.	KRUK S.A.	IRS	PLN 50,000,000.00	buy	1,5775%	3M WIBOR	September 4th 2019 to September 28th 2024

SOURCE: COMPANY

In 2019, the KRUK Group companies (InvestCapital LTd and KRUK S.A.) took measures to hedge currency risk and entered into FX Forward and FX Swap transactions, pursuant to the Group's currency risk management policy. KRUK S.A. entered into EUR/PLN hedging transactions with a tenor of one month, and the maximum value of open transactions in 2019 was EUR 83m. InvestCapital Ltd. executed RON/EUR hedging transactions with the maturity date of December 31st 2019, up to a total amount of RON 204m. All FX Forward and FX Swap transactions were settled on a net basis, without physical delivery,

as at December 31st 2019. The Group does not have any open transactions of this type.

After the reporting date, on February 5th 2020 InvestCapital Ltd. entered into a EUR/PLN FX forward transaction with a nominal value of PL 50 million, maturing on March 5th 2020. The transaction hedges the planned cash flows.

4.4.2

RISKS ASSOCIATED WITH THE USE OF FINANCIAL INSTRUMENTS

When using financial instruments, the Group is exposed to credit risk, liquidity risk (debts) and market risk (currency, interest rates, share prices). For further information on the methods of managing the risks, see Section 5.5 Material risk factors and their management.

Below are presented assets with exposure to credit risk.

TABLE 23. ASSETS WITH CREDIT RISK EXPOSURE

PLN '000	NOTE	DEC 31 2019	DEC 31 2018
FINANCIAL ASSETS MEASURED AT AMORTISED COST	16	4 196 821	4 077 718
LOANS	16	214 617	44 064
RECEIVABLES	20	55 840	51 231
		4 467 278	4 173 013

SOURCE: COMPANY

4.5

EVENTS WITH A SIGNIFICANT EFFECT ON THE GROUP'S OPERATING AND FINANCIAL RESULTS

4.5.1

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in the financial year 2019 are discussed in detail in other sections of this report. Such events include mainly the execution of material agreements in the course of business, as described in detail in Agreements concluded by the KRUK Group.

4.5.2

NON-RECURRING FACTORS AND EVENTS

In 2019, the Group recorded a PLN 19.1m impairment loss in Slovakia, recognised as a result of implementing post-inspection recommendations from the National Bank of Slovakia and suspending collection of debt purchased from a financial institution. In addition, the KRUK CaS Management Board created an additional provision of PLN 4m for costs related to the implementation and effects of NBS recommendations. In January 2020, the National Bank of Slovakia officially closed the proceedings and charged a fine of EUR 10 thousand.

In addition, in connection with the decisions of the Office of Competition and Consumer Protection (UOKiK) published in January and February 2020 and the UOKiK's position on the straight-line method of reimbursement of early repayment fees, a PLN 7.1m provision was recognised for the difference between the method of reimbursement of early repayment fees applied by Wonga.pl and the straight-line method.

4.6

ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

4.6.1

FINANCIAL FORECASTS

January 10th 2020 In Current Report No. 2/2020, KRUK S.A. published the preliminary estimates of the KRUK Group's financial results for 2019. The Group's consolidated net profit for 2019 was estimated at PLN 304m, i.e. PLN 27m more than the actual consolidated net profit. On February 28th 2020, in Current Report No. 3/2020, KRUK S.A. published the preliminary estimates of the KRUK Group's financial results for 2019. The Group's preliminary estimated consolidated net profit for 2019 was PLN 277m, which is equal to the Group's actual consolidated net profit.

4.6.2

ASSESSMENT OF FUTURE FINANCIAL CONDITION

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

In the opinion of the Management Board, given the Group's current and projected financial position there are no significant risks related to its management of financial resources. The Company is able to control and service its debt and manages its financial resources in a prudent manner.

4.7

DIVIDEND POLICY

4.7.1

HISTORICAL DATA ON DIVIDEND PAYMENTS

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

TABLE 24. DIVIDENDS PAID OUT TO KRUK S.A. SHAREHOLDERS

PROFIT FOR THE YEAR	2014*	2015	2016	2017	2018
DIVIDEND PAYMENT DATE	July 24th 2015	July 29th 2016	July 5th 2017	April 27th 2018	July 10th 2019
DIVIDEND PER SHARE (PLN)	1,5	2	2	5	5
TOTAL DIVIDEND (PLNM)	25,9	35,49	37,49	94,04	94,65

* NO DIVIDENDS WERE PAID BY THE COMPANY PRIOR TO 2014. SOURCE: COMPANY
SOURCE: COMPANY

The calendar of events related to the dividend payment in 2019 is presented below:

CALENDAR OF EVENTS RELATED TO DIVIDEND PAYMENT IN 2019

DATE	
April 23rd 2019	Resolution to recommend that the Annual General Meeting approves dividend of PLN 5 per share. The entire dividend is to be paid from the Company's statutory reserve funds. The recommendation took into account the current financial condition of the KRUK Group, future implementation of the strategy, as well as the Group's plans and growth prospects.
April 26th 2019	The Supervisory Board passed a resolution on assessment of the dividend payment recommendation for the shareholders. The Supervisory Board made a positive assessment of the Management Board's recommendation that the Annual General Meeting should approve dividend of 5 PLN per share. The entire dividend is to be paid from the Company's statutory reserve funds.
June 25th 2019	The Annual General Meeting resolved to approve the dividend as recommended by the Management Board.
July 2nd 2019	Dividend record date. The dividend is to be paid on 18,930,655 KRUK S.A. shares
July 10th 2019	Dividend payment date

SOURCE: COMPANY

In the reporting period and until the date of authorisation of this report for issue, the following resolutions were passed on dividend distributions to KRUK S.A.:

- by Presco Investments Sarl, to pay out PLN 35.32m,
- by Novum Finance Sp. z o.o., to pay out PLN 10.07m,
- by ERIF BIG S.A., to pay out PLN 3.00m,
- by KRUK Romania SRL, to pay out PLN 14.64m,*
- by Raven, to pay out PLN 19.74m.

*Converted at the mid rate quoted by the National Bank of Poland as at the resolution date.

4.7.2

DIVIDEND POLICY

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

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 2019.

4.8

AUDITORS

The auditor was selected to audit the financial statements for 2017-2019 by the Company's Supervisory Board. 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 the audit of the financial statements was set at PLN 1,496 thousand (2018: PLN 1,227 thousand); for other assurance services, including review of the financial statements – at PLN 501 thousand (2018: PLN 433 thousand). The separate and consolidated financial statements for 2019 were audited by KPMG Audyt Sp. z o.o.



THE GROUP'S OPERATIONS

AND DEVELOPMENT DIRECTIONS

- 5.1 | STRUCTURE AND DESCRIPTION OF THE DEBT MANAGEMENT MARKET
- 5.2 | LEGAL AND REGULATORY ENVIRONMENT
- 5.3 | DEVELOPMENT DIRECTIONS AND PROSPECTS OF THE GROUP
- 5.4 | INVESTMENTS
- 5.5 | RISK FACTORS AND THEIR MANAGEMENT
- 5.6 | AGREEMENTS EXECUTED BY COMPANIES OF THE KRUK GROUP
- 5.7 | SIGNIFICANT EVENTS AFTER DECEMBER 31ST 2019
- 5.8 | MAJOR RESEARCH AND DEVELOPMENT ACHIEVEMENTS

5.1

STRUCTURE AND DESCRIPTION OF THE DEBT MANAGEMENT MARKET

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

MANAGEMENT OF PURCHASED DEBT PORTFOLIOS

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

The nominal value of the debt portfolio purchased by the Group is PLN 76bn.

CREDIT MANAGEMENT SERVICES

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

In 2019, the Group was contracted to manage debt portfolios with a nominal value of PLN 15.6bn. Taking into account the portfolios outsourced to the Group in previous years, in 2019 the Group managed third-party portfolios with a total nominal value of PLN 30.4bn.

Another market segmentation criterion is the type of managed receivables. According to this criterion, there are three market segments:

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

The Group's primary markets in 2019 were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain. The KRUK Group also purchased corporate debt. The situation in the debt management industry in the countries where the Group operates depends on the prevailing macroeconomic conditions. The factors which may affect the Group's financial

performance include in particular the unemployment rate, average pay in the economy, household debt, GDP growth rate, investment growth rate, inflation rate, budget deficit, and the PLN exchange rate against other currencies. The macroeconomic environment has a two-fold effect on the Group's standing in each phase of the economic cycle.

THE EFFECT OF THE MACROECONOMIC ENVIRONMENT ON THE GROUP'S CONDITION IN A PERIOD OF FAST ECONOMIC GROWTH:

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

THE EFFECT OF THE MACROECONOMIC ENVIRONMENT ON THE GROUP'S CONDITION IN A PERIOD OF ECONOMIC SLOWDOWN:

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

An important market parameter which has a bearing on the supply of new debt portfolios and demand for credit management services provided by the Group is banks' interest in outsourcing these services to debt collection agencies. The level of such interest in a given period is reflected in the share of debt sold or outsourced for management to specialist service providers in the total volume of non-performing debts.

The Group's business partners, both on the Polish and foreign markets, pursue a variety of debt management strategies. The Group is exposed to the risk that their interest in outsourcing debt collection or selling receivables will be reduced, resulting

in an increase in the volume and value of debts collected by creditors using their own resources. Such lesser interest in outsourcing debt collection would suppress demand for external debt collection services, such as those rendered by the KRUK Group, and reduce the supply of debt portfolios available for purchase, thus adversely affecting the Group's revenue.

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

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

For a description of the Group's geographical markets, see Business model.

5.2

LEGAL AND REGULATORY ENVIRONMENT

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

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

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

The nature of the Group's operations involves extensive personal data processing as part of the Group's everyday business. The Group processes personal data in compliance with the personal data protection legislation in force in the countries where it operates, including in particular Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27th 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 96/46/EC (General Data Protection Regulation) (GDPR). However, the Company cannot assure that there will never occur a situation where despite the use of technical and organisational measures to protect personal data it processes the Group's legal obligations in this respect are breached, in particular by disclosing personal data to unauthorised persons.

Some areas of the Group's operations, in particular the activities of securitisation funds and investment companies managing such funds and management of securitised receivables of a securitisation fund, as well as the provision of detective services, are subject to special regulations. To conduct such activities, the Group companies are required to obtain authorisations or consents from public administration authorities (the PFSA in Poland) or have them entered in the register of regulated activities, and is subject to supervision by these authorities.

The laws and regulations underlying the tax systems in the countries in which the Group operates may change. Some of these laws and regulations are ambiguous and the practices and interpretations of tax authorities frequently lack consistency and clarity. Due to differing tax law interpretations, the tax risk in Poland and the other countries where the Group is present is greater than in the legal systems on developed markets. No assurance can be given by the Company that tax authorities will not establish different tax interpretations, unfavourable to the Group, or that tax legislation will not change, which may have a material adverse effect on the Group's operations, financial

condition or performance. Furthermore, as the Group operates in various jurisdictions, double-tax treaties also have an effect on its business.

Considering the legal environment, one should bear in mind the EU legislation, which governs various spheres of economic activity, in particular competition, financial services markets, consumer rights, fair business practices and terms of contracts with consumers, supervision of tax legislation applicable in member states, personal data protection, etc. The EU laws have a significant influence on member states' legislation, and thus on the Group's operations.

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



ROMANIA

In Romania, debt companies are subject to the registration requirement and are obliged to file reports with the National Consumer Protection Authority (NAPC). In December 2016, Kruk Romania was entered in the register maintained by NAPC. In addition, the entity that acquires mortgage secured receivables (RoCapital IFN S.A.) is regulated by the National Bank of Romania.



CZECH REPUBLIC AND SLOVAKIA

The National Bank of Slovakia issued a decision authorising the KRUK Group company operating in Slovakia to grant consumer loans as of December 2nd 2016. Obtaining that decision was also necessary for the company to be able to purchase debts under consumer loan agreements as this type of debt can only be purchased by entities licensed by the National Bank of Slovakia. In the Czech Republic, there are no specific requirements to be satisfied by KRUK to conduct its business in the country.



GERMANY

The regulatory authority is Kammergericht Deutschland, which supervises credit management companies and their activities.



ITALY

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



SPAIN

The Spanish legislation does not provide for the obligation to obtain a permit or licence to conduct debt management activities. No entity operating in Spain is obliged to meet any special requirements with respect to its assets, investments, accounting or regulatory reporting. Entities conducting financial or lending activities are subject to the supervision of the Spanish Central Bank and are required to comply with specific regulations governing such activities; however, none of the KRUK Group companies conduct such activities. Consumer protection regulations apply. Competence for consumer protection is not centralised in a single authority at national level, but is distributed among supervision authorities with varying degree of responsibilities. Certain types of activities, such as those of a field consultant, are subject to strict regulation and require a special permit from the Ministry of Internal Affairs.

5.2.1

SECURITISATION FUNDS AND SECURITISATION COMPANIES

Operations of the Group's securitisation funds (Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, Bison NS FIZ) are regulated. In Poland, securitisation funds operating as closed-end investment funds are subject to supervision by the Polish Financial Supervision Authority (PFSA), which has extensive powers and legal instruments to supervise them.

The PFSA's powers include: granting permits to manage securitised receivables of a securitisation fund by an entity other than an investment fund company; supervising entities that manage securitised receivables of a securitisation fund, including with

regard to compliance of their securitised debt management activities with the law, the fund's articles of association, the agreement concluded with the investment fund company and the authorisation granted; and imposing penalties and applying other measures in the event of violation of the laws governing the operations of investment funds, including fines and withdrawal of the permit.

By the decision of May 8th 2012, the PFSA authorised KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to conduct activities consisting in establishment and management of investment funds. On December 7th 2012, the management of the KRUK Group's securitisation funds was taken over by KRUK Towarzystwo Funduszy Inwestycyjnych S.A. On May 19th 2016, KRUK TFI S.A. took over the management of P.R.E.S.C.O. Investment I NS FIZ from Trigon TFI S.A. On October 13th 2017, KRUK TFI S.A. took over the management of Bison NS FIZ from Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.

In accordance with the provisions of the Act on Investment Funds and Management of Alternative Investment Funds of May 27th 2004, as amended by the Act Amending the Act on Investment Funds and Certain Other Acts of March 31st 2016, the KRUK Group securitisation funds received the status of alternative investment funds, and KRUK TFI S.A. became the manager of alternative investment funds. These changes of status entail closer supervision by the PFSA and additional duties for the management company.

On April 15th 2016, KRUK S.A. entered into an agreement to manage the securitised debt of P.R.E.S.C.O. Investment I NS FIZ. On October 12th 2017, KRUK S.A. entered into an agreement to manage the securitised debt of Bison NS FIZ. The agreement provides, among other things, for debt purchase and sale on behalf of the fund, preparation of projects and analyses concerning the fund's investments, preparation of analyses concerning efficient day-to-day management of the fund's portfolio, as well as collection and administration of the fund's securitised receivables. Since April 1st 2015, KRUK S.A. has also managed the securitised debt of Prokura NS FIZ. The performance of such agreements is subject to the PFSA's oversight.

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

InvestCapital Ltd. of Malta was established in December 2013. The activities of securitisation entities in Malta are supervised activities governed by the provisions of the Securitisation Act (Chapter 484 of the Laws of Malta). Securitisation entities are supervised by Malta Financial Services Authority. In 2015, the company was brought to compliance with the requirements of the Maltese securitisation regime, which included obtaining the MSFA authorisation to conduct securitisation activities.

5.2.2

OUTSOURCING OF DEBT COLLECTION BY BANKS

In Poland, 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.

In the Czech Republic and Slovakia, banking outsourcing and outsourcing agreements between a bank and a third party or between banks are regulated: in the Czech Republic by Decree of the Czech National Bank, and in Slovakia by methodological guidelines of the Banking Supervision Department of the National Bank of Slovakia. There are no specific regulations which would govern the outsourcing of debt collection/credit management services, so they are subject to general civil law in both the Czech Republic and Slovakia. However, the debt collection agencies in the Czech Republic and Slovakia, which are members of the Association of Debt Collection Agencies „ACA” (KRUK is a member of both), should operate in accordance with the ACA Code of Ethics, which is not a regulation in the legal sense of the word, but rather a recommendation.

Bank outsourcing in Romania is regulated by Regulation No. 5/2013 on prudential requirements for credit institutions. An outsourcing contract must be made in writing, and the Regulation specifies detailed requirements as to the elements such contracts must contain. The National Bank of Romania has control and supervisory functions. A service provider must seek a prior consent of the credit institution if it intends to use subcontractors.

In Germany, outsourcing of banking functions and activities (including redress and enforcement of collateral, as well as IT infrastructure) is subject to supervisory rules and requirements. If a bank intends to outsource services, it must ensure (in contract and in a centralised management system) that the service provider complies with the relevant regulations. Compliance is regularly checked by the supervisory authorities. As a general rule, supervisory authorities also have the right to inspect the service provider directly, but this happens rarely. In principle, the scope of the rules to be complied with depends on whether the outsourced functions and activities are 'significant' or 'insignificant'. The responsibility for such classification rests with the bank.

In Spain, there are no special regulations governing the outsourcing of banking functions or activities.

In Italy, there are no detailed rules or regulations for outsourcing by banks of debt collection/credit management functions. Debt collection/credit management services are typically provided based on individual orders or service contracts. Such contracts contain certain standard provisions, but they do not have to meet such stringent requirements as securitisation contracts.

5.2.3

EXCHANGE OF BUSINESS INFORMATION

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

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

On November 13th 2017, the Act Amending the Act on Access to Business Information and Exchange of Business Information of April 9th 2010 entered into force. The changes enable the company to offer new types of services, including intermediation in accessing information from public registers and analyses of creditworthiness of entrepreneurs/business entities. At the same time, the changes would entail imposition of certain additional duties on the company, for instance related to considering debtors' objections against entry of business information into the register.

5.2.4

OTHER AUTHORITIES MATERIALLY INVOLVED IN OVERSIGHT OF THE GROUP'S OPERATIONS

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

- The President of UOKiK – with respect to competition law and protection of consumer rights;
- The President of the Personal Data Protection Office – with respect to processing and protection of personal data.

The Group companies operating on foreign markets are subject to supervision by competent authorities in the countries where they conduct their business:

- In the Czech Republic: The Czech Commercial Inspection Authority is competent for protection of consumers, including supervision of the debt recovery business; other relevant authorities include the body responsible for supervising compliance with personal data protection regulations and the "financial arbitrator" responsible for settling disputes between consumers and financial institutions on an out-of-court basis.
- In Slovakia: National Bank of Slovakia – supervisory authority charged with the oversight of the consumer loans market and for the protection of consumers' financial affairs; 'trade inspection' – consumer protection, including in the debt recovery market; other supervisory authorities include the regulator responsible for personal data protection;
- In Romania: The financial sector in Romania is governed by numerous regulations, covering the exercise of supervision

over and control of operations conducted by banking and non-banking financial institutions. Non-banking financial institutions (IFNs) are subject to supervision by the National Bank of Romania (NBR). The NSC is the capital market regulator (see Section 4.2). NAPC is the supervision authority responsible for protection of consumer rights, maintaining a register in which any entity looking to launch debt collection operations must be entered.

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

5.2.5

PERSONAL DATA PROTECTION

As part of their day-to-day operations the Group companies process large amounts of natural persons' data, therefore personal data protection laws are particularly important in the Group's operations. Personal data may only be processed in the manner prescribed by law, i.e. in particular Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27th 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 96/46/EC (General Data Protection Regulation) ("GDPR"), using technical and organisational measures to ensure the protection of the personal data processed, in particular against disclosure to unauthorised persons. 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.

In the area of personal data protection, the proceedings conducted in Poland against various entities by the President of the Office for Personal Data Protection should be particularly taken into account. The ruling practice is emerging, and the analysis of court rulings helps identify matters that are important for the Group's business and ensure compliance of the Group's personal data processing processes with the GDPR.

Those activities of ERIF Biuro Informacji Gospodarczej S.A. which involve provision of credit information services are also governed by the Act on Access to Business Information. Furthermore, relevant provisions of the Banking Law concerning banking secrecy apply to the management of bank debts. In the case of securitised debt management, the professional secrecy provisions contained in the Act on Investment Funds should be taken into account.

5.2.6

CHANGES IN THE LAWS AND REGULATIONS APPLICABLE TO THE GROUP'S BUSINESS

Below are described some of the changes in the laws and regulations applicable to the Group companies which took effect in 2019:

- In Poland:
 - With regard to the activities of investment funds, significant changes were brought about by the entry into force of the Regulation of the Minister of Finance of July 2nd 2019 on the manner, mode and conditions of conducting operations by investment fund companies. The regulation introduced, among other things, the obligation to have business continuity plans ensuring continuous and undisturbed operation of investment fund companies and contingency plans ensuring continuous and undisturbed operation of key processes; the obligation to supervise the performance of outsourced activities on an ongoing basis; and the obligation to have process documentation, appoint an owner of each process, and operate a system for regular process monitoring.
 - The amendment of July 4th 2019 to the Code of Civil Procedure and certain other acts contains regulations which have a significant impact on the court debt collection

process. First and foremost, the amendment increased court fees payable at the time of filing a suit and in the course of proceedings, which will directly affect the costs of referring delinquent debt for court collection. A noteworthy change is the abolition of the procedure whereby a process letter sent by registered mail was deemed duly delivered if the second advice of its arrival had been sent to the recipient and the recipient had not collected the letter within seven days, which may extend process letter delivery times and increase the service costs. A positive aspect of the change is the possibility of referring cases for enforcement proceedings without enforcement clause proceedings (where the court attaches enforcement clause to the writ of execution), which will reduce the duration of the process.

- The Act on the National Debt Register of December 6th 2018 provides for the disclosure of information on entities in respect of whom enforcement proceedings have been discontinued as ineffective and on entities subject to restructuring and bankruptcy proceedings; it is also a step towards the digitisation of insolvency proceedings.
- The Act Amending the Bankruptcy Law and Certain Other Acts of August 30th 2019 introduces changes making the legal situation of a natural person operating as a sole trader equal to that of a consumer, as well as examination of solvent debtor's fault at the stage when the repayment schedule is defined, and recognition of the notification of a claim to the receiver as an action interrupting the limitation period. These changes may be relevant to insolvency proceedings conducted at the Group.
- Government-sponsored bill to amend certain acts designed to prevent usury (legislative work on the proposal is continuing). If the new law is enacted and enters into force, it will affect not only the Group's operations but the entire lending and debt collection industry. Some of the new regulations in the proposal provide for a new, lower amount of non-interest costs for consumer loans, criminal liability for demanding twice the maximum loan costs or interest, as well as new obligations for lenders with respect to borrower verification prior to granting a loan.
- Two judgments of the Court of Justice of the European Union: in the first judgment, of October 3rd 2019, in case C-260/18, the CJEU ruled that the court may invalidate an entire loan agreement if it contains unfair clauses. In loan agreements concluded in Poland, under which the loans are indexed to foreign currencies, unfair terms and conditions concerning currency exchange differences cannot be replaced with the general provisions of Polish civil law. The agreements should be evaluated taking into account their execution dates. However, each case will be considered individually by the courts. In the second judgment, dated September 11th 2019, in case C-383/18, the CJEU ruled that a consumer who elects to repay the loan early has the right to a proportional reduction of all costs of its service. This judgment is important to the lending industry, as it serves as the basis for decisions issued by the President of the Office of Competition and Consumer Protection on the correctness of cost settlements made by lenders in the event of early repayment of a consumer loan.

- b. The EU law: a regulation that will be relevant to the Group companies' business in all home countries is the proposed Directive of the European Parliament and of the Council on credit servicers, credit purchasers and the recovery of collateral. Its provisions are intended to address the high volume of non-performing loans and to prevent their possible further accumulation, to facilitate the sale of non-performing loans by credit institutions to other operators on efficient, competitive and transparent secondary markets, and to provide regulations on the position of loan purchasers and credit servicers in relation to non-performing loans.
 - c. In Romania, Law No. 129/2019 on the prevention and combating of money laundering and terrorism financing entered into force in 2019, as well as Ordinance No. 114/2018 on fiscal measures, imposed tax on the assets of banking institutions. Most of the fiscal measures adverse to the banking system were repealed by the new government in December 2019, but those amendments will formally enter into force after the constitutional court issues its opinion. The legislative changes adopted by the Parliament which affect the debt trading industry were considered unconstitutional by the constitutional court and have not come into effect.
 - d. In the Czech Republic, amended bankruptcy legislation came into force in 2019. The amendments introduced a number of changes in the area of consumer bankruptcy, which are mostly beneficial to debtors.
 - e. In Slovakia, enactment of the law (which entered into force on January 1st 2020) intended to end prolonged enforcement proceedings. According to the new regulation, a creditor has the right to lodge an objection after receiving bailiff's notification, and may also reopen enforcement. The law also amends accounting regulations, allowing creditors to write off claims and treat them as tax-deductible items.
 - f. In Germany, there were no significant changes in the legal environment in 2019.
 - g. In Spain, the main legislative changes in 2019 were as follows:
 - on July 29th 2019, Royal Decree Law 309/2019 entered into force, laying down certain rules for the protection of natural persons who are debtors or guarantors of loans secured with mortgages or other rights in real property. That law sets out requirements for the provision of advisory services, requirements for the registration of lenders providing financing of property, as well as information to be provided to customers before the conclusion of an agreement.
 - On March 13th 2019, Royal Decree Law 8/2019 entered into force; its main effect was the requirement to create registers of working hours and overtime for all employees of Spanish companies.
 - In the area of regional regulations, on June 16th 2019 local legislation of Valencia: Act 6/2019 on consumer credit entered into force, enhancing the level of consumer protection. On October 16th 2019, amendments to the local civil law came into effect in the Navarra region. They concern, among other things, the obligation to notify debtors of the assignment of their debt, including the price paid by the assignee. The debtor is entitled to repay the debt by paying the price paid by the assignee, plus interest and expenses relating to the credit claims.
 - h. In Italy, there were no significant changes in the legal environment in 2019.
- The Group 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.

[G4-16]

5.3

DEVELOPMENT DIRECTIONS AND PROSPECTS OF THE GROUP

5.3.1

MISSION AND VISION

The Group's mission and long-term vision remain unchanged.

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 and legal norms requiring that everyone must fulfil their obligations.

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.

5.3.2

STRATEGIC PLAN FOR 2019-2024

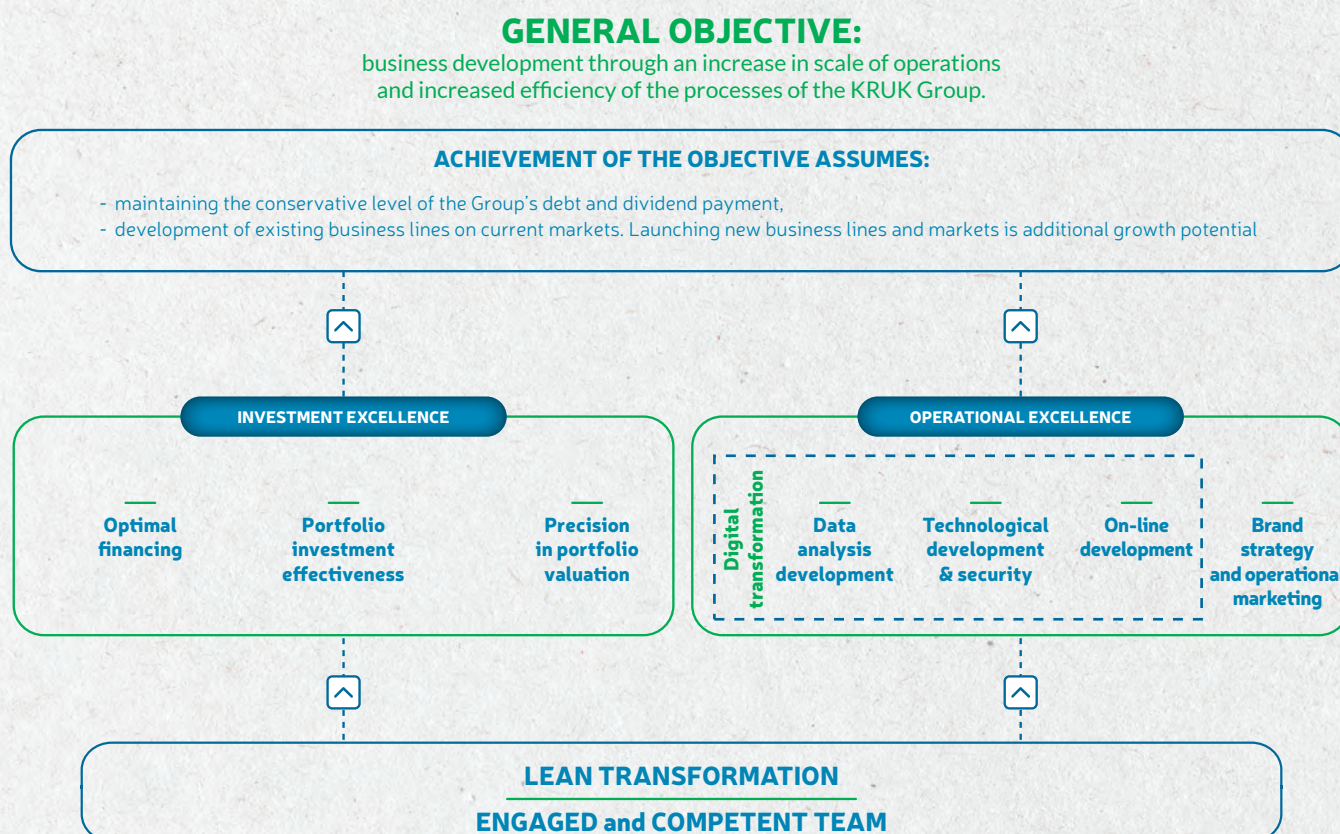
The KRUK Group continues to implement its strategy for 2019-2024, announced in December 2018. The main objective is to develop business by increasing the scale of operations and enhancing the efficiency of the KRUK Group's processes.

In accordance with the adopted strategic management policy, in 2019 a strategic review was carried out, which included an analysis of the Group's current condition.

As a result of the review, the strategy was updated to:

- reflect the current changes and challenges (a strategic direction was added to address portfolio acquisition efficiency and brand strategy)
- facilitate understanding of the strategic directions (change of visualisation to highlight the importance and interdependence of investment and operational excellence).

The visualisation and details of the Strategy for 2019-2024 is presented below:



The Group's strategy is focused on developing its existing business lines on the home markets. We estimate that more than 90% of the Company's profit will be derived from purchased portfolios, especially unsecured retail portfolios. Launch of new business lines and entry into new geographical markets offer further growth potential.

The strategy also provides for:

- maintaining conservative level of the Group's debt (significantly below the current 4x net debt/cash EBITDA limit);
- annual assessment of the appropriateness of dividend payment.

The strategy is based on two pillars:

- investment excellence, which involves optimal funding, efficiency of the portfolio purchase process, and precision of portfolio valuations
- operational excellence, which we will build primarily through development of business intelligence, technological development and security, development of online presence, brand strategy and operational marketing.

Lean is the foundation for our development. We believe that working according to Lean principles will give us a competitive advantage. The key element is people – their competencies and commitment. In KRUK, we always emphasise that our strength lies in teamwork. Attracting and developing the right talent continue to be the fundamental element of our strategy.

5.3.3

IMPLEMENTATION OF THE STRATEGIC PLAN IN 2019

Below is presented a description of selected activities undertaken as part of the implementation of each strategic direction:

INVESTMENT EXCELLENCE

- Securing funding sources that meet the adopted security, cost and availability criteria (Section 4.6.3)
- Execution of strategic investments focused on products that perfectly match our operational capabilities, allowing us to maximise returns
- Optimisation of the valuation process (e.g. shortening the process through automation) and development of valuation methods (e.g. acquisition of new data sources, expansion of benchmarks)

For further information on the investments made, see Section 2.3.4 of the report.

OPERATIONAL EXCELLENCE

- Improvement in business analytics – decision-making models and other solutions using, among others, machine learning
- Technological development: cyber security measures; implementation of the robotic technology in amicable debt collection and court proceedings, in partnership with business partners (all companies); extensive process automation,

e.g. automation of data flow in cooperation with bailiffs in Poland and Romania, optimization of workday planning of field advisors in Italy and Spain, automation in court proceedings in Poland and Italy, roll-out of new payment methods for clients in Poland.

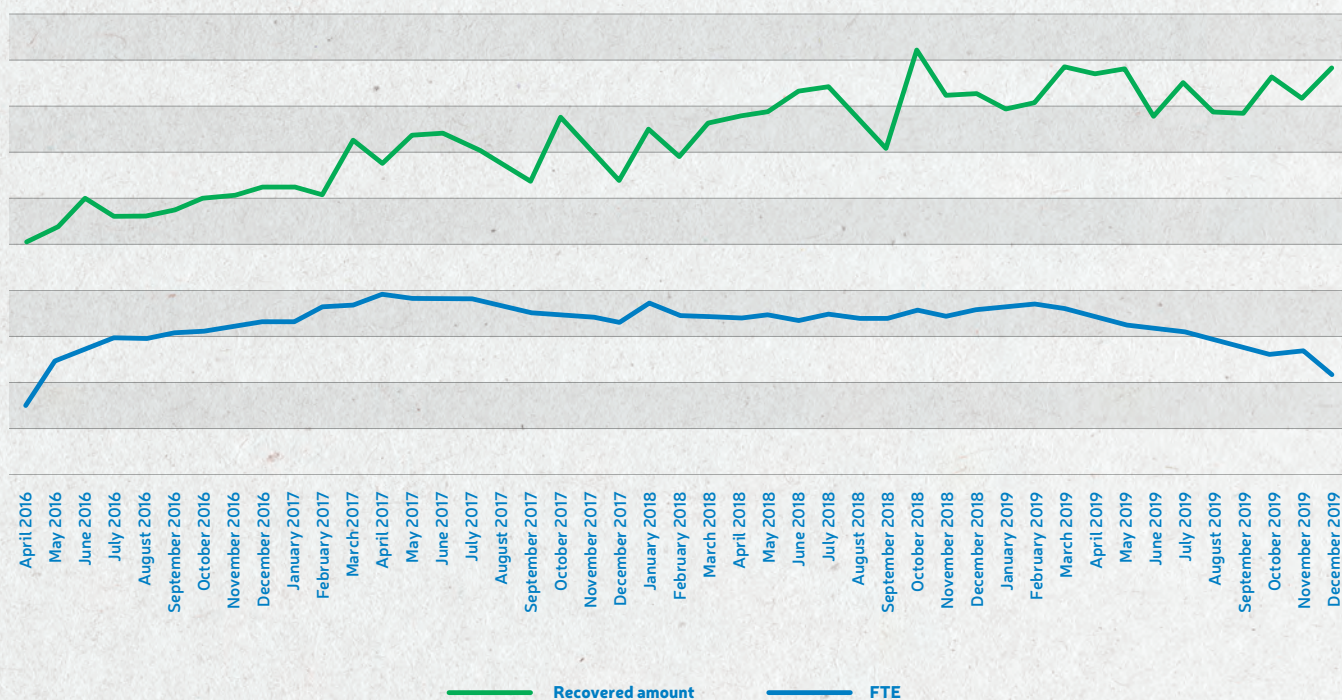
- Online development: implementation of e-KRUK, an online customer service platform in Italy; further development of e-KRUK in Poland, e.g. electronic signature, omnichannel; further development of e-KRUK in Romania and launch of a real estate sale website at www.imopont.ro; introduction of e-payments in the Czech Republic
- Analytical and planning activities related to the marketing strategy review

LEAN TRANSFORMATION / COMMITTED AND COMPETENT TEAM

- Systemic development of managers' and employees' skills in using Lean tools to optimize processes and teamwork, coaching programme for top managers, improvement of the Lean management system.

Our efforts are geared towards achieving the main objective, which is further business development. This is well illustrated by the chart below which shows the increase in the amount of recoveries and the reduction in the number of employees needed to handle the process.

Amount of recoveries from Polish unsecured retail portfolios vs FTE.



In the following years, all companies will take measures to maintain or achieve such a trend, especially as they contributed to the increase in recoveries to the highest ever amount of PLN 1,782m.

Therefore, in the coming years the Group will continue along the adopted strategic directions.

5.4

INVESTMENTS

5.4.1

INVESTMENTS IN DEBT PORTFOLIOS

The KRUK Group invests primarily in debt portfolios. In 2019, the Group's expenditure on portfolio purchases was PLN 781m. For more information on investments in portfolios, see section 1.8.4.

5.4.2

OTHER CAPITAL EXPENDITURE

In 2019, the main items of the Group's other capital expenditure were PLN 10.4m spent on new vehicles (including under finance lease contracts) and PLN 8m spent on plant and equipment. The Company also spent PLN 22m on software and software licences, including PLN 7m invested in development of proprietary software.

5.4.3

EQUITY INVESTMENTS WITHIN THE GROUP

In 2019, KRUK S.A. increased or reduced the capital of its subsidiaries:

TABLE 25. MOVEMENTS IN SHARE CAPITAL AT THE GROUP COMPANIES

COMPANY	CHANGE	AMOUNT
InvestCapital Ltd.	Share capital increase	PLN 310.1m
InvestCapital Ltd.	Share capital reduction	PLN 196.6m
KRUK Česká a Slovenská republika s.r.o.	Debt to equity swap (excluding interest) – contribution to capital other than the share capital	PLN 40.4m*
KRUK Deutschland GmbH	Share capital reduction	PLN 8.2m
KRUK Espana S.L.	Capital injection	PLN 5.1m**
KRUK Italia S.r.l.	Capital injection	PLN 48.0m**
Agecredit S.r.l.	Capital injection	PLN 6.6m**
Agecredit S.r.l.	Debt to equity swap (excluding interest) – contribution to capital other than the share capital	PLN 0.6m*
ItaCapital S.r.l.	Capital injection	PLN 0.4m**
KRUK TFI S.A.	Share capital increase	PLN 10.0m

* TRANSLATED AT THE MID-EXCHANGE RATE QUOTED BY THE NBP AS AT THE SWAP DATE.

** TRANSLATED AT THE MID-EXCHANGE RATE QUOTED BY THE NBP AS AT THE CONTRIBUTION DATE.

SOURCE: COMPANY

5.4.4

SOURCES OF FINANCING THE INVESTMENTS

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

5.4.5

ASSESSMENT OF THE FEASIBILITY OF INVESTMENT PLANS

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

5.5

RISK FACTORS AND THEIR MANAGEMENT

The risk management policies operated by the KRUK Group are designed to:

- Identify and analyse the Group's risk exposures;
- Define appropriate limits and procedures;
- Control and monitor the risk level and suitability of the risk management tools.

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

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

The Management Board identifies the following important risks and risk management methods:

RISK	DESCRIPTION OF RISK/EFFECTS	MANAGEMENT METHOD
Risk of failure to meet the strategic objectives	<p>There is a risk that the Group will fail to achieve its objectives, which may be caused by various factors, including:</p> <ul style="list-style-type: none"> • 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; • errors of persons responsible for the development and execution of the strategy; • events of force majeure. <p>The development of the business involves the need, in some cases, to incur significant financial expenditure. Where the measures taken are less profitable than expected or their objectives are achieved later than originally assumed, the expenditure may not be fully covered by the resulting revenue.</p> <p>Delays in achieving the Group's strategic objectives within the assumed time frame or the occurrence of any of the above-described circumstances may have a material adverse effect on the Group's operations, financial condition or results. There can be no assurance that the Group will maintain or improve its historical results and therefore the Group's historical results should not be treated as indicative of its future performance.</p>	<p>The risk of failure to deliver the strategic objectives is managed primarily through:</p> <ul style="list-style-type: none"> • operationalisation of the long-term strategy into the annual plans of individual Group companies, specifying the objectives, methods of achieving them and necessary resources • regular monitoring of both the results (the extent to which the objectives have been achieved) and progress in the implementation of the planned activities at the level of the Group companies and the Management Board <p>The Group also takes steps to prevent the risk of incorrect of its strategic objectives. In annual cycles, before budget for the following years is prepared, the Group carries out a strategic analysis, which involves review of opportunities and threats in the macroeconomic environment (e.g. political, legal, and economic factors) and the market environment as well as analysis of the organization's strengths and weaknesses. Results of the analysis are then used to either confirm or update the strategy.</p>
Risk of error in estimating the fair value of acquired debt portfolios	<p>In the course of its operating activity, the KRUK Group purchases debt portfolios for its own account. If purchased debt portfolios do not generate expected cash flows over specified time horizons it may be necessary to make a downward revaluation of the portfolios. The risk is relatively higher on new markets, where the Group is yet to gain experience. An additional driver of the risk is potential fluctuations of foreign exchange rates, which may increase or decrease PLN income from foreign-currency portfolios (currency risk).</p>	<p>Based on its many years' experience, the Group has developed a system for analysing and assessing that risk. The key tools making up the system are as follows:</p> <ul style="list-style-type: none"> • Detailed analysis and estimation of the risk as at the date of purchasing a given debt portfolio, based on advanced economic and statistical tools (the results of the analysis and estimation are reflected in the price offered in the auction); • Quarterly revaluation of each debt portfolio held; • Purchasing various types of debt, with various degrees of difficulty and delinquency statuses. <p>Having acquired by the end of 2019 as many as 1056 debt portfolios and having carried out over 3,848 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.</p>
Risk of material decline in recoveries from purchased debt portfolios	<p>Purchase of debt for the Group's own account means that the Group assumes the risk of non-payment by debtors. This risk is particularly material if the amounts of individual debts in a purchased portfolio are high relative to the Group's equity or profit levels.</p>	<p>There are no individual cases managed by the Group repayments under which would represent a significant portion of total recoveries. Repayments in mass collection processes relate to a number of clients and are made independently.</p>

	<p>Additional risk may be generated by the growing number of consumer bankruptcies. As at the date of this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on its liquidity, but no assurance can be given that such a situation will not occur in the future.</p>	<p>However, by monitoring the day-to-day repayment records, the Company is able to control the risk related to a material decline in recoveries from debt portfolios.</p>
Risk of increased costs of the Group's business	<p>Financial results of the KRUK Group are affected by a number of cost factors over which the Group has no control or only limited control, including in particular cost of salaries, court costs, tax costs and prices of purchased debt. In the event that any increase in costs is not accompanied by a growth of the Group's revenue, there is a risk that the Group's financial condition might deteriorate.</p>	<p>The Group's costs are capped in the budget approved by the Supervisory Board on an annual basis. Every manager is assigned a precisely defined share of total budgeted expenditure, corresponding to their remit. Significant costs in excess of the budget cap that will affect future economic benefits in each case require approval by the Management Board (if the budget is exceeded only within a specific remit) or by the Supervisory Board (if such additional costs result in exceeding the budget assumed for the entire KRUK Group).</p> <p>Additionally, both costs and the ratios of costs to recoveries are monitored by the KRUK Group's Management Board on an ongoing basis. Thus, it is possible to early identify factors that could lower efficiency and to take appropriate corrective actions.</p>
Operational risk related to the Group's business	<p>The Group is exposed to the risk of damage or loss for reasons attributable to its internal procedures, personnel, technologies or external circumstances. The main operational risks include incorrect or unreliable internal procedures; errors, omissions or illegal actions of employees or associates; problems with operating systems; disruption of operating activities (e.g. due to failure of software or IT and telecommunications hardware); damage to the Group's assets; external events and factors (including errors in registering economic events or amendments to legal regulations); fraud and embezzlement. The key systems used by the Group include the Delfin debt collection platform, the billing system, management information system, contact centre, and the e-KRUK on-line service. No assurance can be given that all or part of the IT system or IT equipment will not be affected by a failure making it difficult for the Group to conduct operations or achieve its strategic objectives. Security of the operational systems is also important to the Group in view of the need to ensure personal data protection. [G4-14]</p>	<p>The Group operates 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, development and constant oversight of the applied IT technologies in line with the latest new technology trends).</p>
Risk of changes in the external environment, particularly in the legal and macroeconomic environment	<p>The risk of changes in the external environment mainly includes changes in the legal but also macroeconomic and social environment (including low levels of financial literacy), changes in the banking and financial sectors, and the activities of competitors.</p> <p>The laws and regulations applicable to the Group's operations, particularly those governing debt collection, consumer bankruptcy, tax reliefs and privileges available to investment funds and consumer lending, have been and may be subject to amendments.</p>	<p>The Group has no control over changes in the legal environment, but it has developed and implemented a procedure for monitoring such changes. The Group prepares for any expected changes in advance by conducting a thorough analysis of their economic impact on the Group, preparing an implementation plan and making relevant changes to the business.</p> <p>Group companies are members of various organisations and associations, which gives them the opportunity to voice their opinion on proposals for internal</p>

	<p>No assurance can be given by the Company that unfavourable legislative amendments directly affecting the Group's debt collection business, or having an adverse impact on that area of the Group's business, will not be introduced in jurisdictions in which the Group operates or that the Group will not misinterpret a legal provision. As a consequence, civil, administrative or criminal sanctions may be imposed on the Group, and the Group's practices may change. The Group may also be exposed to liability for damages, may incur unforeseen costs, including but not limited to costs of bringing the Group's operations in line with legal requirements, or may need to reorganise its structure.</p> <p>The low level of financial literacy among the public may lead to misinterpretation of the law and widespread belief that debts do not need to be repaid. This may have a negative impact on the perception of activities conducted by professional debt management companies, which operate in accordance with the applicable laws and social norms, ultimately affecting debt recovery rates.</p> <p>Changes in the macroeconomic environment have a direct impact on the Group's operations in terms of its debt purchasing capacity, the supply and quality of debt portfolios offered for sale, costs of the Group's operations, recovery rates, and lending activity. Changes in the banking and financial sectors have a direct impact on the propensity of original creditors to sell debt and on the terms on which the Group purchases debt portfolios and raises debt finance, including through bond issues.</p> <p>Competitor activity has a direct impact on the Group, from rivalry in the debt buying process, through the implemented debt collection processes, to perception of the industry through the lens of what competitors do.</p>	<p>or legislative changes and to exchange knowledge with other industry players.</p> <p>In order to reduce the risk of low financial literacy, the KRUK Group engages in initiatives aimed at raising financial literacy among the general public. These initiatives include publication of advice articles, running public awareness campaigns in the press and on the Internet, providing various social groups with educational materials on home budget planning and ways of getting out of debt, and collaboration with various independent experts, social welfare institutions and centres and non-profit organisations.</p> <p>The Group analyses macroeconomic conditions and changes in the banking and financial sectors on an ongoing basis. Having no direct control of the changing environment, the Group aligns its business model with the changing conditions. Thanks to the ongoing debt buying process, the Group has constant access to funding (recoveries from debt portfolios) and may purchase larger amounts of debt on more favourable terms when the macroeconomic landscape deteriorates. An improvement in macroeconomic conditions drives up recoveries.</p> <p>The Group analyses its market position and competitor activity on an ongoing basis.</p>
Credit risk	<p>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 the services provided by the Group and loans it advances. Factors with the strongest effect on the scale of the Group's credit exposure include in particular:</p> <ul style="list-style-type: none"> • value of purchased debt portfolios, • loans advanced, • trade receivables. <p>Additional risk may be generated by the growing number of consumer bankruptcies.</p>	<p>The key tool used by the Group in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:</p> <ul style="list-style-type: none"> • Assessment of a client's creditworthiness prior to proposing a payment schedule and other terms of cooperation; • Regular monitoring of timely payment of debt; • Maintaining a diversified client base. <p>The KRUK Group analyses the risk attached to the debt portfolios it purchases using advanced tools of economic and statistical analysis and its long-standing experience in this respect. It purchases debts of various types, with different degrees of difficulty and delinquency statuses. Debt portfolio valuations are revised on a quarterly basis. As at the date of this report, the KRUK Group holds no single debt whose non-payment could have a material adverse effect on its liquidity, but no assurance can be given that such a situation will not occur in the future.</p>

Market risk (currency risk and interest rate risk)	<p>Market risk is the risk of impact of changes in market prices, such as foreign exchange rates and interest rates on the Group's results or on the value of financial instruments held and investments made by the Group. The Group's exposure to currency risk results from foreign investments (both past and current) 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 a different currency, resulting in a mismatch between the currency of the proceeds from such investment and the currency of recoveries. This gives rise to 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).</p> <p>The Group's debt is denominated in the zloty and euro (credit facilities and bonds), based on floating interest rates, and therefore the Group is exposed to interest rate risk. The Group has identified exposure to the risk of an increase in the WIBOR and EURIBOR interest rates. There is a risk that the Group may incur additional finance costs (higher debt service costs) as a result of an increase in interest rates, which in turn are driven by changing conditions on the financial markets.</p>	<p>The objective behind currency and interest rate risk management is to maintain and control the Group's exposure to market risk within assumed limits so as to:</p> <ul style="list-style-type: none"> • 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 terms of the bond issues. <p>To this end, the Group follows and periodically reviews its internal currency and interest rate risk management policies. The Group uses financial instruments to hedge its interest rate risk and currency risk.</p> <p>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 periodically identifies and monitors the value of unhedged positions exposed to changes in foreign exchange rates and interest rates, monitors the impact of these changes on the Group's profit or loss, and measures currency risk and interest rate risk. Under master agreements with banks, the Group may also 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 the methodology of its management.</p>
Liquidity risk	<p>Debt portfolio purchases involve making large one-off payments. To secure the necessary funding for its debt portfolio purchases, the Group relies on external financing in the form of bank borrowings or bonds. The KRUK Group uses and intends to use in the future bank loans, bonds and other debt instruments to finance purchases of debt portfolios. The Group also 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.</p>	<p>The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation. Liquidity risk management tools used at the Group include:</p> <ul style="list-style-type: none"> • Regular monitoring of cash needs and spending; • Flexible management of cash flows between the Group entities; • Conducting collection activities on an ongoing 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.

Risk relating to large-scale personal data processing by the Group	<p>The Group's business involves processing of personal data transferred to the Group by creditors who outsource credit management services or sell the debts to the Group. This means that in accordance with applicable laws the Group receives customer data, and no assurance can be given that the data is 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 Group 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 Group and may adversely affect its image. This may happen even though the Group has procedures and tools in place to mitigate this risk.</p>	<p>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 keeps records of all sources of the 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.</p>
Risk of losing key employees	<p>People are one of the fundamental components of the Group's business. The loss of key employees may generate the risk of temporary disruption of the Group's operations, deterioration of the quality of its management, and adversely affect the pace of implementation of its strategic plans.</p>	<p>In order to mitigate the risk of losing key employees, the group of people and positions considered to be key to the continuity of the Group's business is regularly reviewed.</p> <p>The KRUK Group continuously engages in initiatives to advance professional development of its management staff and specialists in various areas of the business. The Group also strives to provide optimal working conditions and tools for all employees.</p> <p>In addition to the remuneration policy, the KRUK Group offers its employees a diversified system of non-financial benefits which include:</p> <ul style="list-style-type: none"> • internal and external training for employees at all companies, • programmes designed to develop employees' skills in human resources management (succession program in Romania), • funding for post-graduate studies and professional qualification courses at all companies, • specialist English courses, • regularly reviewed and expanded offer of medical care services, • sports cards for employees, • lunch vouchers in the Czech Republic, Italy and Spain, a wide range of cafeteria services offered in Poland, Romania and the Czech Republic. <p>The offer of non-financial benefits available to Group employees is verified both internally (employee survey) and externally (market benchmark). Moreover, an incentive scheme for key management staff has been put in place to ensure employee retention.</p>
Risk related to related-party transactions	<p>The Company and the Subsidiaries have entered and will continue to enter into transactions as related parties. In the Company's opinion, all such transactions have been executed at arms' length. However, there can be no assurance that the transactions will not be challenged by tax authorities, which could result in higher tax liabilities of the Company and the Group.</p>	<p>Any significant transaction to be concluded with a related party within the Group is preceded by detailed analyses of its legal and tax aspects in order to minimise the risk involved.</p>

Risk of negative PR in relation to the Group

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 business 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 conduct of other debt management companies, which tend to be attributed to the entire industry, in particular the most recognisable operators on the market.

The Group's business involves 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.

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 Association of Financial Companies in Poland (Związek 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.

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5.6

AGREEMENTS EXECUTED BY COMPANIES OF THE KRUK GROUP

5.6.1

MATERIAL AGREEMENTS

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2019 which may be considered material to the Group's business..

5.6.1.1

AGREEMENTS EXECUTED WITH NON-GROUP COMPANIES

EXECUTION OF DEBT ASSIGNMENT AGREEMENT IN ROMANIA

On June 8th 2019, a debt assignment agreement was executed by InvestCapital LTD of Malta, a subsidiary of KRUK S.A., (the Buyer) and Getback Recovery S. R. L. of Bucharest, Romania. The agreement provided for the purchase of an unsecured debt portfolio for RON 41.2m (PLN 37.4m at the mid rate quoted by the National Bank of Poland for June 7th 2019). As at October 16th 2019, all conditions precedent were satisfied, including the condition that the agreement

be approved by the court supervisor appointed in the accelerated arrangement procedure of GetBack S.A. w restrukturyzacji of Warsaw, and payment of the price on the terms set out in the Agreement.

EXECUTION OF DEBT ASSIGNMENT AGREEMENT IN ITALY

On December 20th 2019, a binding firm agreement was signed between ItaCapital S.r.l. of Milan, a subsidiary of KRUK S.A., (the Buyer) and Intesa Sanpaolo S.p. A. of Turin. The agreement provided for the purchase of unsecured consumer loans with a total nominal amount of approximately EUR 300m (PLN 1.3bn at the mid rate quoted by the National Bank of Poland for September 14th 2018).

EXECUTION OF DEBT ASSIGNMENT AGREEMENTS IN POLAND

On December 17th 2019, agreements were concluded between PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, a subsidiary of KRUK S.A., (the Buyer) and one of Poland's largest banks. The agreements provided for the purchase from the Bank of debt portfolios with a nominal amount of approximately PLN 781m. The agreements contained a condition precedent stipulating that the debt portfolios and the security would be transferred to the Buyer upon payment of the price. The agreements did not provide for contractual penalties, and the other terms did not differ from market standards applied in contracts of such type.

5.6.1.2

INTRA-GROUP AGREEMENTS

In 2019, KRUK S.A. did not execute any agreements with Group companies that could be considered material to the business of the KRUK Group.

5.6.2

MATERIAL RELATED-PARTY TRANSACTIONS EXECUTED ON A NON-ARM'S LENGTH BASIS

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

5.6.3

BORROWING AGREEMENTS

In 2019, some of the KRUK Group's credit facility agreements were amended. The table below presents all credit facilities of the KRUK Group, related collateral and other security as at December 31st 2019.

BANK BORROWINGS AT THE KRUK GROUP (PLNm)

BANK	BORROWER	AGREEMENT DATE	FINAL REPAYMENT DATE	FACILITY	LIMIT AS AT THE AGREEMENT DATE, AS AMENDED	LIMIT AS AT DEC 31 2019
Santander Bank Polska S.A.	KRUK S.A.	April 2011	Credit facility (PLN 85m): October 2024 Additional credit facility (PLN 55m): October 2022	Revolving credit facility	140	140
BNP Paribas S.A.	KRUK S.A.	October 2014	December 2020	Revolving credit facility	120	37,5
Getin Noble Bank S.A.	KRUK S.A.	March 2014	May 2024	Revolving credit facility	260	260
mBank S.A.	PROKURA NSFIZ	July 2015	July 2023	Revolving credit facility	140	140
PKO BP S.A.	PROKURA NSFIZ	June 2016	December 2020	Non-revolving credit facility	35	7,6
PKO BP S.A.	PROKURA NS FIZ	December 2016	June 2021	Non-revolving credit facility	27	9,4
Bank Pocztowy S.A.	KRUK S.A.	December 2018	December 2023	Revolving credit facility	50	50
ING Bank Śląski S.A.	PROKURA NS FIZ	December 2018	December 2024	Revolving credit facility	200	200
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	Invest Capital LTD, KRUK Romania S.R.L., Prokura NS FIZ, KRUK España S.L.U.	July 2017	July 2024	revolving credit facility, syndicated credit facility	1 000,7	1 000,7
TOTAL					1972,7	1845,2

DEBT COLLATERAL IN THE GROUP:

BANK	BORROWER	COLLATERAL AND OTHER SECURITY	VALUE OF COLLATERAL PROVIDED BY THE BORROWER AS AT DECEMBER 31 2019
Santander Bank Polska S.A.	KRUK S.A.	<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 	249
BGŻ BNP Paribas S.A.	KRUK S.A.	<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 	209
Getin Noble Bank S.A.	KRUK S.A.	<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 	255
mBank S.A.	PROKURA NSFIZ	<ul style="list-style-type: none"> registered pledge over selected portfolios held by PROKURA NS FIZ surety under civil law provided 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 KRUK S.A. on submission to enforcement notarised declaration of PROKURA NS FIZ on submission to enforcement 	208
PKO BP S.A.	PROKURA NSFIZ	<ul style="list-style-type: none"> registered pledge over selected portfolios held by PROKURA NS FIZ surety under civil law provided 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 	41
PKO BP S.A.	PROKURA NS FIZ	<ul style="list-style-type: none"> registered pledge over selected portfolios held by PROKURA NS FIZ surety under civil law provided 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 	13
Bank Pocztowy S.A.	KRUK S.A.	<ul style="list-style-type: none"> financial pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. financial pledge over RUK S.A.'s selected account power of attorney over KRUK S.A.'s selected account notarised declaration of KRUK S.A. on submission to enforcement 	98
ING Bank Śląski S.A.	PROKURA NS FIZ	<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 and registered pledge over PROKURA NS FIZ's selected account financial pledge over KRUK S.A.'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 	246
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A.	Invest Capital LTD, KRUK Romania S.R.L., Prokura NS FIZ, KRUK España S.L.U.	<ul style="list-style-type: none"> pledge over borrowers' selected portfolios pledge over selected bonds issued by ItaCapital S.r.l. pledge over borrowers' selected accounts surety under civil law provided by KRUK S.A. surety under civil law issued by KRUK Romania S.r.l surety under civil law issued by Kruk España S.L.U. notarised declaration of KRUK S.A. on submission to enforcement notarised declaration of PROKURA NS FIZ on submission to enforcement 	1156
TOTAL			2475

After the reporting date, on January 22nd 2020 the Company and BNP Paribas Bank Polska S.A. executed Amendment 1 to the Agreement on Registered Pledge over Investment Certificates of the closed-end investment fund of December 1st 2017 which secure liabilities under the multi-purpose credit facility agreement No. WAR/4060/14/172/CB executed on October 3rd 2014 by and between BNP Paribas Bank Polska S.A. and KRUK S.A. Under Amendment 1, the number of certificates pledged was changed and the overcollateralisation of the facility was released. On January 27th 2020, an application was filed with the court to amend the entry in the register of pledges accordingly. According to a notification received by the Company, the pledge was established for up to PLN 180m. As at December 31st 2019, the carrying amount of the pledged assets in KRUK S.A.'s accounting books was PLN 49.49m.

Following the execution on July 3rd 2017 of a revolving multi-currency credit facility agreement (as amended) between KRUK S.A., InvestCapital LTD and KRUK Romania S.R.L., Prokura NSFIZ, KRUK España S. L. U. (the borrowers), and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A., in order to establish security for the liabilities arising under the agreement.

- After the reporting date, on January 3rd 2020 InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A. signed an agreement under Spanish law establishing a pledge over a debt portfolio purchased by InvestCapital LTD on the Spanish market.
- After the reporting date, on February 14th 2020 InvestCapital Ltd and DNB Bank ASA signed an agreement under Romanian law to create a pledge over portfolios purchased by InvestCapital Ltd on the Romanian market.

As at December 31st 2019, the total value of portfolios pledged as security under those agreements was PLN 170.25m.

TERMINATION OF CREDIT FACILITY AND LOAN AGREEMENTS

In 2019, the Group companies, except Novum Finance Sp. z o.o. and Wonga.pl Sp. z o.o., did not terminate any credit facility or loan agreements with entities from outside the KRUK Group.

5.6.4

LOANS, SURETIES AND GUARANTEES GRANTED; BORROWINGS, SURETIES AND GUARANTEES RECEIVED

5.6.4.1

LOANS ADVANCED BY KRUK S.A. TO ITS SUBSIDIARIES

In 2019, KRUK S.A. granted to its subsidiaries loans for a total amount of PLN 274.1m (translated into PLN at the exchange rates quoted by the National Bank of Poland for the loan dates). The loans were granted to the following companies:

BORROWER	PURPOSE	CURRENCY	AMOUNT OF LOANS GRANTED IN 2019 IN PLN:	TOTAL AMOUNT OF ALL LIABILITIES UNDER LOANS GRANTED BY KRUK S.A. AS AT DECEMBER 31ST 2019, IN PLN
WONGA.PL SP. Z O.O.	financing of day-to-day operations, including refinancing of debt to the previous owner PLN 95.9m	PLN	203,3 m	203,2 m
NOVUM FINANCE SP. Z O.O.	financing of day-to-day operations	PLN	17,4 m	38,2 m
KRUK ČESKÁ A SLOVENSKÁ REPUBLIKA S.R.O.	financing of day-to-day operations PLN 3.0m and investing activities PLN 23.9m financing of investing activities	CZK EUR	26,9 m 17,8 m	21,5 m
KRUK ROMANIA S.R.L.	financing of investing activities	EUR	8,5 m	59,1 m
ERIF BUSINESS SOLUTIONS SP. Z O.O.	financing of day-to-day operations	PLN	0,17 m	1,5 m
SECAPITAL POLSKA SP. Z O.O.	financing of day-to-day operations	PLN	0,03 m	0,1 m
TOTAL			274,1 m	

THE AMOUNTS OF LOANS DENOMINATED IN FOREIGN CURRENCIES WERE TRANSLATED INTO PLN AT THE MID-RATES QUOTED BY THE NATIONAL BANK OF POLAND FOR THE LOAN DATES. AS AT DECEMBER 31ST 2019, LIABILITIES UNDER LOANS DENOMINATED IN FOREIGN CURRENCIES WERE TRANSLATED INTO PLN AT THE MID-RATES QUOTED BY THE NATIONAL BANK OF POLAND FOR DECEMBER 31ST 2019.

SOURCE: COMPANY

LOANS ADVANCED TO ROCAPITAL I.F.N.

In 2019, RoCapital I.F.N. of Bucharest did not obtain any loans from KRUK S.A. As at December 31st 2019, the amount of other liabilities of RoCapital I. F. N. towards KRUK S.A. under loans (principal and interest) was PLN 4.5m (translated into PLN at the mid-rate quoted by the National Bank of Poland for December 31st 2019).

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) plus margin.

The agreed maturities of the loans provided to finance day-to-day operations ranged from 350 days to one year, except the loans granted to:

- Novum Finance Sp. z o.o. – the loan is to be repaid in up to 3 years
- Wonga.pl Sp. z o.o. – the loan is to be repaid in up to 7 years.

The agreed maturities of the loans financing the companies' investing activities ranged from one to three years.

5.6.4.2

BORROWINGS RECEIVED BY THE COMPANY FROM SUBSIDIARIES

BORROWINGS FROM ERIF BIURO INFORMACJI GOSPODARCZEJ S.A. OF WARSAW

Borrowings from ERIF BIG S.A. of Warsaw were intended to finance day-to-day operations of the Company. The amount of borrowings received in 2019 was PLN 1.5m.

As at December 31st 2019, the Company's outstanding liabilities (principal and interest) towards ERIF BIG S.A. under the borrowings were PLN 7.6m.

LOAN RECEIVED FROM KRUK DEUTSCHLAND GMBH OF BERLIN

The loan received from KRUK Deutschland GmbH of Berlin in 2019 of PLN 6.4m (translated at the mid-rate quoted by the National Bank of Poland for the loan date) was used to finance the Company's day-to-day operations. The loan was repaid in 2019. As at December 31st 2019, the Company had no outstanding liabilities towards KRUK Deutschland GmbH.

5.6.4.3

CONSUMER LOANS OFFERED BY THE KRUK GROUP THROUGH NOVUM AND WONGA.PL

In 2019, the KRUK Group advanced 8.8 thousand NOVUM cash loans in Poland and Romania, for a total gross amount of PLN 59.4m. As part of the NOVUM business line, consumer loans of up to PLN 10,000 per loan were granted for periods from 3 to 30 months. The NOVUM service is mainly addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking

market. In 2019, NOVUM loans were also offered in Poland to natural persons who had not been clients of the KRUK Group.

In 2019, following the acquisition of Wonga.pl Sp. z o.o., in the period from May to December 2019, the KRUK Group granted 142.4 thousand cash loans in Poland, for a total amount of PLN 285.6m. As part of the Wonga business line, consumer loans of up to PLN 20,000 per loan are granted for periods up to 60 months. Wonga services are offered to individuals of good credit standing, with access to online banking.

INTRA-COMPANY LOANS BETWEEN SUBSIDIARIES LOANS ADVANCED BY KRUK TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. TO PROKURA NS FIZ FUND

In 2019, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław granted a PLN 12.0m loan to PROKURA NS FIZ of Wrocław, to finance the fund's investing activities.

5.6.4.4

GUARANTEES

GUARANTEES OBTAINED

After the reporting date, on January 2nd 2020 Santander Bank Polska S.A. executed Annex 5 to the bank guarantee of December 17th 2014 provided to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a contract for lease of a part of an office building signed by the Company and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2020. The guarantee amount is EUR 287,637.26 and PLN 192,958.93. The guarantee is secured by a power of attorney over the Company's bank accounts held with Santander Bank Polska S.A.

GUARANTEES PROVIDED

Following cancellation of shares in InvestCapital Ltd effected on November 26th 2018, on November 26th 2018 KRUK S.A. provided a corporate guarantee to InvestCapital Ltd. of up to PLN 20m. The guarantee expired on March 12th 2019. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by March 12th 2019.

Following the cancellation of shares in InvestCapital Ltd effected on July 29th 2019, on July 29th 2019 KRUK S.A. provided a corporate guarantee to InvestCapital Ltd. of up to PLN 110m. The guarantee expired on December 10th 2019. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who had the right to challenge the share capital cancellation by December 10th 2019.

Following the cancellation of shares in InvestCapital Ltd on August 29th 2019, which will become effective not later than January 28th 2020, on August 29th 2019 KRUK S.A. provided a corporate guarantee to InvestCapital Ltd. of up to PLN 30m. The guarantee will expire not later than on January 28th 2020. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who had the right to challenge the share

capital cancellation by January 28th 2020.

Following the cancellation of shares in InvestCapital Ltd on October 9th 2019, which will become effective not later than February 12th 2020, on October 9th 2019 KRUK S.A. provided a corporate guarantee to InvestCapital Ltd. of up to PLN 85. The guarantee will expire not later than on February 12th 2020. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who had the right to challenge the share capital cancellation by February 12th 2020.

Following the cancellation of shares in InvestCapital Ltd on November 20th 2019, which will become effective not later than on February 28th 2020, on November 20th 2019 KRUK S.A. provided a corporate guarantee to InvestCapital Ltd. of up to PLN 40m. The guarantee will expire not later than on February 28th 2020. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who had the right to challenge the share capital cancellation by February 28th 2020.

5.6.4.5

SURETIES

In connection with the execution of the master agreement governing execution of financial market transactions InvestCapital LTD and DNB Bank Polska S.A. on March 8th 2019 and the Annex of August 29th 2019, whereby the treasury limit was increased, KRUK S.A. issued a surety, of up to EUR 15.3m, to guarantee timely payment of any resulting liabilities by InvestCapital LTD. The Company made a declaration on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure in connection with the surety.

In connection with the execution on September 5th 2019 of an amendment to the revolving multi-currency credit facility agreement of July 3rd 2017 between KRUK S.A., its subsidiaries: InvestCapital Ltd., KRUK Romania S.R.L., PROKURA NSFIZ (the Borrowers) and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and mBank S.A., KRUK S.A. and KRUK Romania S.R.L. provided sureties for the Borrowers' liabilities up to EUR 390m for the term of the facility agreement. On September 6th 2019, the Company made a declaration on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to EUR 390m, which will expire on or before December 31st 2027.

Moreover, in connection with the execution, on December 18th 2019, of an annex to the revolving multi-currency credit facility agreement of July 3rd 2017 between KRUK S.A., its subsidiaries: InvestCapital Ltd., KRUK Romania S.R.L., PROKURA NSFIZ, KRUK Espana S.L.U. (the Borrower) and DNB Bank ASA, ING Bank Śląski S.A. and Santander Bank Polska S.A., KRUK Romania and KRUK Espana S.L.U. also provided sureties for the Borrowers' obligations up to EUR 390m for the term of the credit facility.

5.7

SIGNIFICANT EVENTS AFTER DECEMBER 31ST 2019

No significant events occurred after December 31st 2019.

5.8

MAJOR RESEARCH AND DEVELOPMENT ACHIEVEMENTS

In 2019, research and development work focused on:

- improving Delfin (including Delfin mobile), an operating platform supporting the credit management process. The platform comprises a number of systems tailored to the Group's international expansion (it offers flexibility and scalability), internal procedures, as well as to the needs of its clients. The platform is developed using internal resources and in collaboration with external suppliers;
- improving business analysis capabilities (decision-making models and other business intelligence solutions; machine-learning);
- process optimisation through automation and robotisation;
- online services for customers.

These efforts will be continued as part of the Group's Strategy for 2019–2024. Technological transformation is one of its key objectives.



CORPORATE GOVERNANCE

- 6.1 | STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS
- 6.2 | SHAREHOLDING STRUCTURE
- 6.3 | GOVERNING BODIES
- 6.4 | RULES GOVERNING AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION
- 6.5 | KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS
- 6.6 | DIVERSITY POLICY
- 6.7 | MATERIAL LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

6.1

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

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

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

6.1.1

ADOPTED CODE OF CORPORATE GOVERNANCE

In 2019, 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>).

6.1.2

CORPORATE GOVERNANCE STANDARDS WHICH THE COMPANY ELECTED NOT TO COMPLY WITH

As per the Management Board's statement, in 2016 the Company declared compliance with corporate governance standards set forth in the Best Practice for WSE Listed Companies 2016, save for the exceptions described below. This statement remains valid also for corporate governance standards complied with in 2019.

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.

6.2

SHAREHOLDING STRUCTURE

6.2.1

SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY MAJOR HOLDINGS OF KRUK S.A. SHARES

The table below presents the shareholders holding directly or indirectly major holdings of KRUK S.A. as at January 1st 2019, based on shareholder notifications received by the Company.

TABLE 26. MAJOR HOLDINGS OF KRUK S.A. SHARES AS AT JANUARY 1ST 2019

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: COMPANY

The table below presents the shareholders holding directly or indirectly major holdings of KRUK S.A. shares as at December 31st 2019

TABLE 27. MAJOR HOLDINGS IN KRUK S.A AS AT DECEMBER 31ST 2019

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	1 886 666	9,94
NN PTE*	2 055 000	10,83
Aviva OFE*	1 740 000	9,17
PZU OFE*	1 056 178	5,57

(*) DATA BASED ON THE LIST OF SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE ANNUAL GENERAL MEETING OF KRUK S.A. HELD ON JUNE 25TH 2019.

SOURCE: COMPANY

The table below presents the shareholders holding directly or indirectly major holdings of KRUK S.A. shares as at March 5th 2020.

TABLE 28. MAJOR HOLDINGS OF KRUK S.A SHARES AS AT THE REPORT ISSUE DATE

Shareholder	Number of shares/ voting rights	Ownership interest (%)
Piotr Krupa	1 886 666	9,94
NN PTE*	2 055 000	10,83
Aviva OFE*	1 740 000	9,17
PZU OFE*	1 056 178	5,57

(*) DATA BASED ON THE LIST OF SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE ANNUAL GENERAL MEETING OF KRUK S.A. HELD ON JUNE 25TH 2019.

SOURCE: COMPANY

6.2.2

CHANGES IN SIGNIFICANT HOLDINGS OF SHARES IN THE REPORTING PERIOD

The following changes in major holdings of KRUK S.A. shares took place in 2019:

- On April 16th 2019, KRUK S.A. received the following notification from Powszechne Towarzystwo Emerytalne PZU S.A., registered office at Al. Jana Pawła II 24, 00-133 Warsaw, concerning purchase of the Company shares:

"Acting pursuant to Art. 69.1.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (consolidated text: Dz.U. of 2019, item 623), Powszechne Towarzystwo Emerytalne PZU S.A., acting on behalf of the open-end pension fund Otwarty Fundusz Emerytalny PZU Złota Jesień (OFE PZU), hereby notifies you that following the execution on April 11th 2019 of a transaction to purchase 23,109 (twenty-three thousand, one hundred and nine) shares in KRUK S.A. (ISIN PLKRK0000010) at the Warsaw Stock Exchange, upon settlement of the transaction on April 15th 2019, OFE PZU came to hold more than 5% of the total voting rights in the company.

The table below presents the number of shares and voting rights held prior to and following the transaction.

I. Prior to the transaction: Number of shares held: 943,821, Percentage of share capital: 4.997, Number of voting rights held: 943,821, Percentage of total voting rights at 4.997

II. After the transaction: Number of shares held: 966,930, Percentage of share capital: 5.120, Number of voting rights held: 966,930, Percentage of total voting rights: 5.120

OFE PZU notifies you that it does not have any subsidiaries holding shares in KRUK S.A., no situation referred to in Art. 69.4.6 of the Act arises, and it does not hold any financial instruments referred to in Art. 69b.1.1) and 2) of the Act."

- On April 30th 2019, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, on April 26th 2019 Mr Krupa had sold, in ordinary transaction on the Warsaw Stock Exchange, 30,000 shares in KRUK S.A. at the average price of PLN 161.70 per share.
- On May 10th 2019, the Company received from Piotr Krupa, President of the Management Board of KRUK S.A. and the Company's major shareholder, a notification in which Mr Krupa informed the company of the sale on May 8th 2019 of 15,000 shares in KRUK S.A. at the average price of PLN 167.80 per share. Also on May 10th 2019, the Company received the following notification concerning sale of the Company shares:

"Pursuant to Art. 69.1.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies dated July

29th 2005, I hereby give notice that as a result of the sale of 15,000 shares in KRUK S.A. on May 8th 2019 (Company) (ISIN PLKRK0000010) on the Warsaw Stock Exchange I hold less than 10% of the total voting rights in the Company.

The table below presents the number of shares and voting rights held prior to and following the transaction.

I. Prior to the transaction: Number of shares held: 1,901,666, Percentage of share capital: 10.069, Number of voting rights held: 1,901,666, Percentage of total voting rights: 10.069

II. After the transaction: Number of shares held 1,886,666, Percentage of share capital: 9.989, number of voting rights held: 1,886,666, Percentage of total voting rights: 9.989.

I further notify you that I do not have any subsidiaries holding shares in KRUK S.A., no situation referred to in Art. 69.4.4 of the Act arises, and I do not hold any financial instruments referred to in Art. 69b.1.1) and 2) of the Act."

Therefore, the number of voting rights calculated in accordance with Art. 69.4.9 of the Act is 1,886,666, representing 9.989% of the total voting rights."

6.2.3

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 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. The 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 2019, the Company did not buy back any of its shares.

6.2.4

HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL POWERS

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

6.2.5

LIMITATIONS ON THE EXERCISE OF VOTING RIGHTS

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

6.2.6

LIMITATIONS ON TRANSFER OF OWNERSHIP OF SECURITIES

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

6.2.7

AGREEMENTS WHICH MAY GIVE RISE TO CHANGES IN OWNERSHIP INTERESTS HELD BY THE EXISTING SHAREHOLDERS OR BONDHOLDERS

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

6.3

GOVERNING BODIES

[G4-34]

6.3.1

MANAGEMENT BOARD

6.3.1.1

COMPOSITION OF THE MANAGEMENT BOARD, CHANGES THERETO AND RULES OF APPOINTMENT

The Company's management body is the Management Board. In the period January 1st – December 31st 2019, the Company's Management Board consisted of five members, and its composition did not change during the financial year.

Composition of the Management Board in 2019 is presented in the table below.

TABLE 29. COMPOSITION OF THE MANAGEMENT BOARD OF KRUK S.A. IN 2019

NAME AND SURNAME	POSITION
Piotr Krupa	CEO and President of the Management Board
Agnieszka Kulton	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: 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..

6.3.1.2

POWERS OF THE MANAGEMENT BOARD

The Management Board, led by the President, manages the Company's business and assets, and represents the Company before courts, government authorities and third parties. Pursuant to 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 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.

6.3.1.3

SHARES IN THE COMPANY AND ITS RELATED ENTITIES HELD BY MANAGEMENT BOARD MEMBERS

The table below presents Company shares or rights to Company shares held by Management and Supervisory Board members as at January 1st 2019.

TABLE 30. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT JANUARY 1ST 2019

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 Kulton	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: COMPANY

Apart from the changes in the number of shares held by Piotr Krupa, President of the Management Board, described in the Shareholding structure section, in the period from January 1st 2019 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 10th 2019, the Company received a notification from Michał Ząsepa, given under Article 19 of the MAR, to the effect that on May 10th 2019 Michał Ząsepa had sold, in ordinary session trades on the Warsaw Stock Exchange, 5,000 shares in KRUK S.A. at the average price of PLN 168.09 per share.

On July 16th 2019, the Company received a notification from Iwona Słomska, given under Article 19 of the MAR, to the effect that on July 12th 2019 and July 15th 2019 Iwona Słomska had sold, in ordinary session trades on the Warsaw Stock Exchange, 8,622 shares in KRUK S.A. at the average price of PLN 192.00 and 1,945 shares in KRUK S.A. at average price of PLN 192.00 per share.

On November 26th 2019, the Company received notifications from Iwona Słomska and Michał Ząsepa, given under Article 19 of the MAR, to the effect that on November 26th 2019 each of them had acquired 9,915 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 scheme. On the same day, the Company received a notification from Michał Ząsepa, given under Article 19 of the MAR, to the effect that on November 25th 2019 Michał Ząsepa had sold, in ordinary session trades on the Warsaw Stock Exchange, 9000 shares in KRUK S.A. at the average price of PLN 144.01 per share.

TABLE 31. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT DECEMBER 31ST 2019

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD	TOTAL PAR VALUE (PLN)
Piotr Krupa	CEO and President of the Management Board	1 886 666	1 886 666
Agnieszka Kutton	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	39 348	39 348
Michał Ząsepa	Member of the Management Board	26 356	26 356
Tomasz Bieske	Member of the Supervisory Board	1 222	1 222

SOURCE: COMPANY

List of notifications received from the management and supervisory personnel in 2019.

PIOTR KRUPA – SUMMARY OF NOTIFICATIONS IN 2019

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
April 30th 2019	April 26th 2019	30 000	Sale	PLN 161.70	WSE
May 10 2019	May 8 2019	15 000	Sale	PLN 167.80	WSE

MICHAŁ ZĄSEPA – SUMMARY OF NOTIFICATIONS IN 2019

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
May 10 2019	May 10 2019	5 000	Sale	PLN 168.09	WSE
November 26th 2019	November 26th 2019	9915	Purchase	PLN 83.52	Outside a trading venue
	November 25th 2019	9000	Sale	PLN 144.01	WSE

IWONA SŁOMSKA – SUMMARY OF NOTIFICATIONS IN 2019

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
July 15th 2019	July 15th 2019	1945	Sale	PLN 192	WSE
July 15th 2019	July 12th 2019	8622	Sale	PLN 192	WSE
November 26th 2019	November 26th 2019	9915	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 32. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT THE REPORT ISSUE DATE

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD	TOTAL PAR VALUE (PLN)
Piotr Krupa	CEO and President of the Management Board	1,886,666	1,886,666
Agnieszka Kulton	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	39,348	39,348
Michał Zasępa	Member of the Management Board	26,356	26,356
Tomasz Bieske	Member of the Supervisory Board	1,222	1,222

SOURCE: COMPANY

6.3.1.4

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 management 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 management 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 management 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. Management 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 2019) from the Company and its subsidiaries for 2018 and 2019.

TABLE 33. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN 2019

NAME AND SURNAME	REMUNERATION RECEIVED FROM THE COMPANY FOR 2019	ADDITIONAL BENEFITS* RECEIVED FROM THE COMPANY FOR 2019	REMUNERATION FROM RECEIVED THE SUBSIDIARIES FOR 2019	ADDITIONAL BENEFITS* RECEIVED FROM THE SUBSIDIARIES FOR 2019
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6,23	—	—
Agnieszka Kulton	768	6,23	—	—
Urszula Okarma	768	5,11	—	—
Iwona Słomska	768	5,11	—	—
Michał Zasępa	768	68,65	—	—

* ADDITIONAL BENEFITS INCLUDE MEDICAL CARE, RENT ALLOWANCE, CHRISTMAS GIFTS, AND COMPANY CARS.
SOURCE: COMPANY

TABLE 34. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN 2018

NAME AND SURNAME	REMUNERATION RECEIVED FROM THE COMPANY IN 2018	ADDITIONAL BENEFITS* RECEIVED FROM THE COMPANY FOR 2018	REMUNERATION RECEIVED FROM THE SUBSIDIARIES IN 2018	ADDITIONAL BENEFITS* RECEIVED FROM THE SUBSIDIARIES IN 2018
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6,28	—	—
Agnieszka Kulon	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: COMPANY

The total amount of remuneration and additional benefits for 2019 paid by the Company and its subsidiaries to the Management Board members specified above was PLN 5,472 thousand and PLN 91.33 thousand, respectively. In 2018, the respective amounts were PLN 5,472 thousand and PLN 91.11 thousand. Additional benefits received from the Company for 2019 do not include bonuses and awards for the Management Board members for 2019.

Moreover, as part of the 2015–2019 Incentive Scheme, members of the Management Board were offered Subscription Warrants for 2018 in the number specified in the Management Board's Resolution of July 16th 2019 and Supervisory Board's Resolution of September 22nd 2019, subject to fulfilment of certain conditions specified in the General Meeting's Resolution No. 26/2014 of May 28th 2014.

In line with the 2015–2019 Incentive Scheme, the number of Subscription Warrants to be granted to Management Board members in each year of the Scheme may not exceed 50% of the total number of Subscription Warrants offered for subscription by Eligible Persons as part of a given Tranche. For further information on the incentive schemes operated by the Company, see the Incentive Scheme section.

6.3.2

SUPERVISORY BOARD

6.3.2.1

COMPOSITION OF THE SUPERVISORY BOARD, ITS CHANGES AND RULES OF APPOINTMENT

The Supervisory Board consists 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 2019 to June 25th 2019, the KRUK Supervisory Board was composed of seven members.

TABLE 35. COMPOSITION OF THE KRUK SUPERVISORY BOARD FROM JANUARY 1ST 2019 TO JUNE 25TH 2019

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: COMPANY

Following the expiry of the Supervisory Board's term of office, on June 25th 2019, the Annual General Meeting of KRUK S.A. appo-

inted the Supervisory Board for a new term of office, setting the number of its members at seven. The composition of the Supervisory Board of the new term is presented in the table below.

TABLE 36. COMPOSITION OF THE KRUK SUPERVISORY BOARD SINCE JUNE 25TH 2019

NAME AND SURNAME	POSITION
Piotr Stępiak	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Mateusz Melich	Member of the Supervisory Board
Ewa Radkowska- Świętoń	Member of the Supervisory Board
Piotr Szczepiorkowski	Member of the Supervisory Board

SOURCE: COMPANY

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

TABLE 37. GENDER DIVERSITY ON THE MANAGEMENT BOARD OF KRUK S.A. IN 2019

WOMEN	60%	3
MEN	40%	2

SOURCE: COMPANY

TABLE 38. GENDER DIVERSITY ON THE SUPERVISORY BOARD OF KRUK S.A. IN 2019

WOMEN	29%	2
MEN	71%	5

SOURCE: COMPANY

6.3.2.2

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.

6.3.2.3

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.

6.3.2.4

REMUNERATION, BONUSES AND EMPLOYMENT CONTRACT TERMS OF THE SUPERVISORY BOARD MEMBERS

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

The table below presents the amounts of remuneration received by the Supervisory Board members from the Company and its subsidiaries for 2019 and 2018.

TABLE 39. REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

SURNAME, FIRST NAME	REMUNERATION FROM THE COMPANY FOR 2018	REMUNERATION FROM THE COMPANY FOR 2019
	(PLN '000)	(PLN '000)
Beuch Katarzyna	98,91	108,25
Bieske Tomasz	98,91	108,25
Jastrzębski Arkadiusz	98,91	48,08
Kawalec Krzysztof	98,91	108,25
Koński Robert	98,91	48,08
Stępiak Piotr	197,83	216,25
Wancer Józef	98,91	48,08
Melich Mateusz	–	60,17
Radkowska-Świętoń Ewa	–	60,17
Szczepiórkowski Piotr	–	60,17

SOURCE: COMPANY

The total remuneration for 2019 received from the Company by the Supervisory Board members named above was PLN 866 thousand.

In 2019, the Company paid additional benefits of PLN 35.57 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.

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

As at the date of this Report, the Company did not have any liabilities arising from pensions or similar benefits to former members of management or supervisory bodies, or any liabilities incurred in connection with such pensions

6.3.2.5

SUPERVISORY BOARD COMMITTEES

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

- Audit Committee,
- Remuneration and Appointments 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 members of the Audit Committee from among its members.

In the period January 1st–June 25th 2019, the Audit Committee was composed of:

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

On June 25th 2019, the Supervisory Board of the new term of office at its first meeting appointed the new Audit Committee:

- Katarzyna Beuch – Chairperson of the Audit Committee,
- Ewa Radkowska-Świętoń – Member of the Audit Committee,
- Piotr Stępnik – Member of the Audit Committee,
- Piotr Szczepiorkowski – Member of the Audit Committee.

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

Pursuant to the Rules of Procedure for the Supervisory Board, the Audit Committee consists of at least three members. The majority of the Audit Committee members, including its chairperson, should be independent members of the Supervisory Board. The Audit Committee should include at least one member with knowledge and skills in accounting or auditing. Members of the Audit Committee should have the knowledge of and skills relevant for 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 members of the Committee, Ms Ewa Radkowska-Świętoń and Mr Piotr Szczepiorkowski, 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 Ms Katarzyna Beuch, Chairperson of the Committee, and Mr Piotr Stępnik, Member of the Committee, possessed expertise 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 obtained ACCA qualification since 2000 (followed by FCCA in 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.

Ewa Radkowska-Świętoń holds a degree in Finance and Banking from the Warsaw School of Economics. She began her professional career in 1995 at the Capital Transactions Centre of Bank Handlowy. In 1996–2006, she worked for ING Investment Management Polska S.A. (currently NN Investment Partners TFI S.A.) as an analyst, portfolio manager, fund manager, and acting Investment Director. She then served as fund manager at Aviva Investors Polska S.A. In 2008–2017, she was Member of the Management Board and then Vice President of Nationale Nederlanden PTE S.A.; also held the position of Investment Director. From September 2017 to January 2019, she served as President of the Management Board of Skarbiec TFI S.A. and as Vice President and then President of the Management Board of Skarbiec Holding S.A. He is certified by CFA (Chartered Financial Analyst) and FRM (Financial Risk Manager).

Mr Piotr Stępnik graduated from Guelph University, Canada as BA (majoring in Economics and in Management); Economics, Management; ESC Rouen, France; Purdue University, U.S., as EMBA and Purdue University, U.S., as MSM. Since 2008 he has served as 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, Chairman of the Audit Committee of Skarbiec TFI S.A., Chairman of the

Audit Committee of Grupa Kęty S.A., Chairman of the Audit Committee of ATM Grupa S.A., Chairman of the Audit Committee of Asseco Business Solutions S.A. Since 2017, Chairman of the Audit Committee of Skarbiec TFI S.A., Chairman of the Audit Committee of Grupa Kęty S.A., Chairman of the Audit Committee of ATM Grupa S.A., Chairman of the Audit Committee of Asseco Business Solutions S.A.

Expert in pension systems, asset management and capital markets. a full member of the Polish Society of Actuaries, and a member of CFA Society Poland (CFA Charterholder). A graduate of the Faculty of Chemical and Process Engineering at the Warsaw University of Technology (1985), he worked for the Ministry of Finance (Department of Financial Institutions) and Bank Gospodarstwa Krajowego (Department of Monetary Economy). For many years (1993-2016) he worked for Commercial Union Polska group (now Aviva Polska), first in the Financial Department of Towarzystwo Ubezpieczeń na Życie as an accountant, Vice Financial Director, Vice Director responsible for Investments, and then in Commercial Union PTE as Vice President of the Board – Investment Director. Since 2001 President of the Management Board of PTE. Member of the Audit Committee of the Chamber of Commerce of Pension Funds (IGTE). Between 2008 and 2016, Vice President of the Management Board of Aviva Towarzystwo Ubezpieczeń na Życie. During his professional career he has passed all 14 exams under a training programme to achieve the ACCA qualification, completed Executive Management Development courses organised by CEDEP (Fontainebleau), Columbia University and Wharton School of Business. At present, he is a member of Supervisory Boards of the following WSE-listed companies: FM Forte S.A., Ipopema Securities S.A., Octava S.A., Decora S.A., as well as a member of the Supervisory Board and Chair of the Audit Committee of Ipopema TFI 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.

Apart from statutory duties, in 2019 the Audit Committee dealt in particular with:

- Summarising the results of the audit of the 2018 full-year report and setting the rules of audit of the financial statements for 2019;
- analysis of the results of the review of the interim financial statements;
- analysis and evaluation of the internal control and internal audit system operating in the Company, together with a discussion of the implementation of the 2019 audit plan,
- discussion of the risk matrix in the Group,
- approval of the performance of non-audit services by the auditor;
- analysis of reports from book valuation of portfolios together with presentation of allocation keys of forecasted payments to portfolios for the purposes of book valuation,
- analysis of the debt portfolio valuation process and results of portfolio remeasurement in individual markets,
- an analysis of key changes in the law on individual markets of the KRUK Group's operations,
- analysis of the conclusions from the audit of TFI Saturn and their significance for the KRUK Group,
- Currency and interest rate risk management at the Group, updating of the Currency Risk Management Policy;
- operational risk management at KRUK S.A.
- building a central compliance process within the Group,
- analysis of the internal procedure for selecting an auditor to audit the financial statements at the KRUK Group, together with a recommendation to the Supervisory Board to amend the procedure in force at the Group,
- an analysis of the Company's implementation of IFRS 16 along with the impact on the financial statements and the impact on debt limits required under credit agreements,
- CFC on the example of the Italian company ItaCapital srl.

In line with KRUK S.A.'s Policy and procedure for the purchase of non-audit services, permitted non-audit services provided to all KRUK Group companies are monitored and assessed to ensure the auditor's for independence. In 2019, the cost of such services was PLN 836 thousand. All of the services were pre-approved by the Audit Committee, in accordance with the 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 2019, the Committee held five meetings. In addition, the

members of the Audit Committee met in the form of teleconferences and at additional meetings organized to discuss the issue in detail.

REMUNERATION AND APPOINTMENTS COMMITTEE

The Supervisory Board appoints members of the Remuneration and Appointments Committee from among its members.

In the period January 1st–June 25th 2019, the Remuneration and Appointments Committee was composed of:

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

On June 25th 2019, the Supervisory Board of the new term of office at its first meeting appointed the Remuneration and Appointments Committee to its composition:

- Tomasz Bieske – Chairman of the Remuneration and Appointments Committee;
- Mateusz Melich – Member of the Committee;
- Piotr Szczepiórkowski – Member of the Committee

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

The Remuneration and Appointments 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 Appointments Committee members should be independent members of the Supervisory Board.

All Members of the Remuneration and Appointments Committee meet the criteria of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight. In addition, two members of the Remuneration and Appointments Committee: 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.

The Remuneration and Appointments 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 2019, 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 Appointments 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.

In the period January 1st–June 25th 2019, the Finance and Budget Committee was composed of:

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

On June 25th 2019, the Supervisory Board of the new term of office appointed the Finance and Budget Committee in its composition:

- Mateusz Melich – Chairman of the Committee,
- Katarzyna Beuch – Member of the Committee,
- Tomasz Bieske – Member of the Committee,
- Krzysztof Kawalec – Member of the Finance and Budget Committee,
- Ewa Radkowska-Świątoń – Committee member

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 contract.

In 2019, 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.

On February 3rd 2020, by Resolution No. 2/2020, the Company's Supervisory Board appointed KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw, entered in the list of qualified auditors of financial statements under No. 3546, to audit the separate financial statements of KRUK S.A. and the consolidated financial statements of the KRUK Group for the financial years 2020–2021.

POLICY AND PROCEDURE FOR APPOINTMENT OF THE AUDITOR OF FINANCIAL STATEMENTS OF THE KRUK GROUP, AND POLICY FOR THE PROVISION OF NON-AUDIT SERVICES BY AN AUDITING FIRM

The Company operates policies and procedures outlined in 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 appointment of the auditor of financial statements of the KRUK Group:

1. The 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

- d. Parent
- e. experience in the auditing of international groups (experience in partnering with foreign auditors)
- f. experience in the auditing of securitisation funds
- g. experience in the auditing of public-interest entities
- h. experience in the auditing of companies operating in the same industry as the KRUK Group
- i. professional qualifications and experience of the auditor and other persons directly involved in the audit
- j. the price proposed for the audit
- k. 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 2019 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 THE AUDITOR

WIn 2019, the Company did not appoint an auditor. In the process of selecting the auditor to audit financial statements for the financial years 2017, 2018 and 2019, 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.

6.3.3

GENERAL MEETING

Rules governing the convening and the operation of the General

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

The General Meeting may be held as 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' 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 include:

- Consideration and approval of the Directors' 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.

6.4

RULES GOVERNING AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

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

6.5

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 in place a suitable and effective internal control system, which ensures safe operations in compliance with applicable laws, adopted strategy and internal procedures.

The internal control system is comprised 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.

6.6

DIVERSITY POLICY

The Company and the Group have in place a Diversity Policy document, adopted by a resolution of the Company's Management Board on December 8th 2015. The aim of the adopted diversity Policy 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 Policy, each employee is obliged to respect other employees' right to privacy, must not interfere with their personal affairs, and must accept any existing differences.

6.7

MATERIAL LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

No material court, arbitration or administrative proceedings are pending against KRUK S.A or its subsidiaries in relation to their liabilities or claims.



NON-FINANCIAL INFORMATION

- 7.1 | CATEGORY: ECONOMIC
- 7.2 | CATEGORY: ENVIRONMENTAL
- 7.3 | CATEGORY: SOCIAL
- 7.4 | GRI CONTENT INDEX

This non-financial information has been compiled in the form of a statement in accordance with the GRI Standards, in the core option. In the statement we also used selected additional indicators, which made it possible to present the non-financial information so that it can be compared with relevant non-financial data from previous years.

[G4-32]

The statement includes data on the KRUK Group for the period from January 1st 2019 to December 31st 2019, and is an integral part of the Directors' Report on the operations of the KRUK Group in the previous year.

[G4-28]

This is the third annual summary of non-financial information, and the Group intends to present non-financial data on an annual basis. The report for 2018 was published on March 7th 2019.

[G4-22][G4-23][G4-29] [G4-30].

Contact person in matters relating to this Report: Agnieszka Salach, PR manager at the Public Relations Department, agnieszka.salach@kruksa.pl; Karol Plotek, analysis expert at the Corporate Supervision Department, karol.plotek@kruksa.pl

[G4-31]

In the reporting period, the KRUK Group did not seek external assurance of the non-financial information presented in this report.

[G4-33]

MATERIAL ASPECTS AND INDICATORS

During the next validation workshop with the participation of the KRUK Management Board, the final number of material aspect categories was defined. They have been selected in terms of the

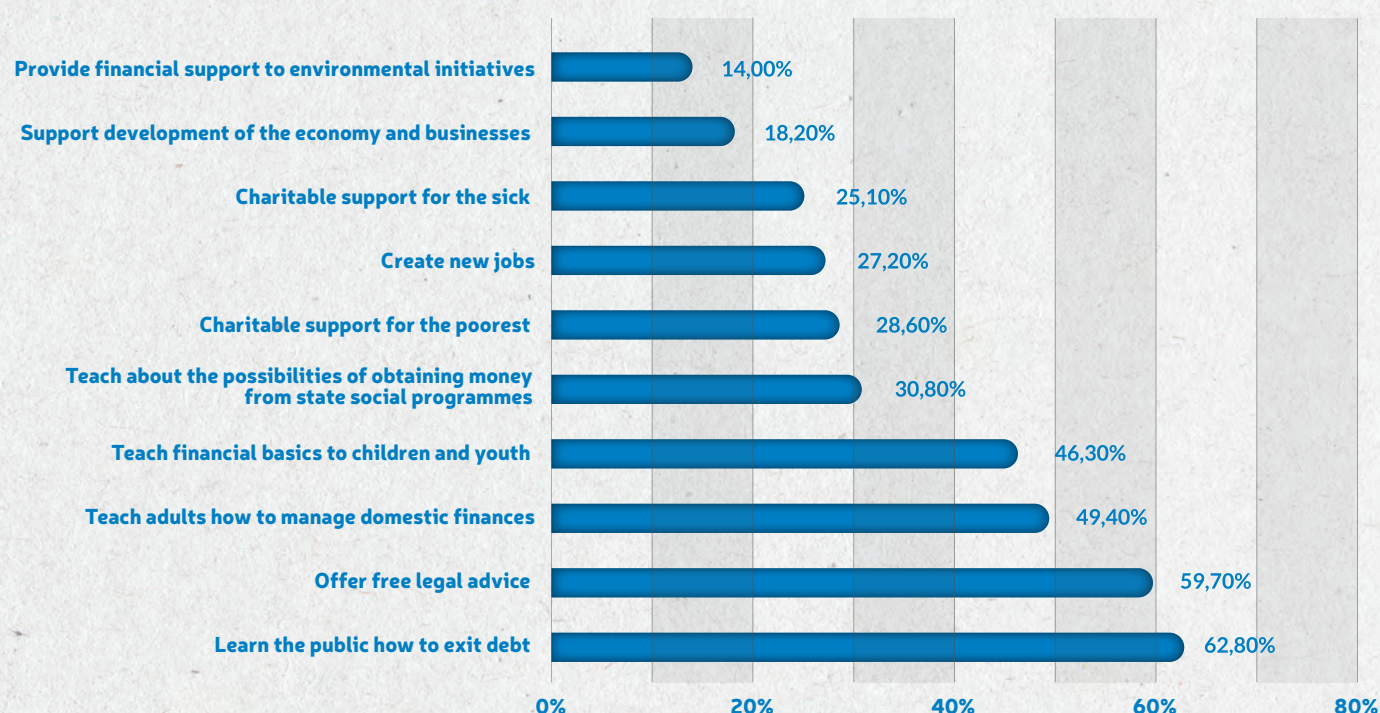
What activities should be pursued/supported by a company from the debt collection industry, such as KRUK S.A.?

organisation's activities and their impact on the natural, social and economic environment. All of them are included in this statement. They are to a large extent the result of the Group's dialogue with various stakeholders, with whom the Group maintains contact, among others, through direct customer satisfaction surveys, social surveys conducted by external research agencies, as well as during direct meetings with shareholders or journalists.

Moreover, on March 15th-18th 2019, KRUK S.A. conducted a survey on the Ariadne research panel, covering a nationwide sample of 1,079 Poles aged 18+ and based on the CAWI methodology, i.e. an online questionnaire, to find out the respondents' opinions on what social initiatives should be pursued by a company from the debt collection industry.

The vast majority of the respondents selected educational events aimed at improving financial awareness. This confirms the validity of the educational initiatives undertaken by the Group as part of its corporate social responsibility. Other activities highlighted by the respondents were charity initiatives for the poor and the sick, development, and creation of new jobs environmental initiatives.

Below are presented the survey results..



In 2019, KRUK S.A. decided to join the United Nations Global Compact. As a result, in addition to the educational initiatives, the Group companies focused also on enhancing public and business awareness in the area of environmental protection and climate change. These issues are relevant to all of the Company's stakeholders, both internal and external, which is why the Group chose to engage in those initiatives.

The important aspects selected by the Group 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
- Grievance mechanisms for human rights
- Anti-corruption
- Compliance with regulations
- Product and service labelling
- Marketing communications
- Compliance with regulations concerning marketing communications

[G4-18][G4-19] [G4-21] [G4-27]

MATERIAL STAKEHOLDERS

Based on our activities to date, the key groups of internal and external stakeholders have been defined. 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 2019, the KRUK Group has identified material economic, environmental, and social aspects. To this end, meetings were organised with internal stakeholders: employees, managers, and

the Management Boards of Wonga and KRUK S.A.

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

- customers (consumers, including debtors),
- business partners,
- regulators,
- industry associations,
- NGOs,
- shareholders,
- suppliers,
- competitors,
- financial institutions,
- social organisations,
- market regulators,
- the media.

[G4-24]

The significance of stakeholder groups was verified based on:

- public surveys conducted at least once a year,
- individual customer satisfaction surveys carried out on an ongoing basis,
- business partner satisfaction surveys carried out once a year.

[G4-20]

In 2019, the Group identified and selected groups of external stakeholders and social aspects on the basis of customer satisfaction surveys, meetings and discussions with business partners, as well as an analysis of the legal, political, social and financial environment.

As part of the stakeholder dialogue:

A satisfaction survey was carried out among 28 business partners of the KRUK Group. It involved filling out questionnaires and conducting in-depth interviews.

A satisfaction survey was carried out in 2019 among the KRUK Group's clients, using telephone questionnaires. Over 13,000 clients participated in the survey. More than 3,000 customers took part in the satisfaction survey after a live chat session.

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

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 discussions on how to improve the image of the entire debt management industry in Poland (in a working group set up by the Association 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
Business partners	Business partner satisfaction surveys	Once a year
Customers – including debtors	Customer satisfaction surveys	Ongoing
	e-kruk.pl platform	Ongoing
	Face-to-face and telephone conversations with KRUK consultants	Ongoing
Suppliers	Face-to-face meetings, phone calls, e-mails	As needed
Employees	Employee Suggestion Scheme for employees to propose their ideas, e.g. for making improvements in the workplace	Ongoing
	The Employee Forum, with the 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; Noble Package (Szlachetna Paczka), projects implemented by partnering foundations: the Concert of Hope (Koncert Nadziei), and initiatives of the 'See Me' Foundation; communication building environmental awareness	As needed
	Whistleblowing, i.e. the procedure of reporting irregularities using an anonymous form available on the Company's website kruksa.eu and mailboxes at Wonga.pl offices	As needed
	Whistleblowing to the Consultation and Mediation Team	As needed
	In-house events for employees	At least once a year
	Programme to support employees in difficult life situations, with full confidentiality guaranteed	As needed by employee
	Direct meetings with management staff	As needed
	Company Social Benefits Fund, the purpose of which is to help employees in difficult situations while maintaining full confidentiality	As needed

SOURCE: THE KRUK GROUP

THE ORGANISATION'S VALUES

In 2019, the KRUK Group's mission did not change and was as follows:

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 KRUK Group invariably complies in its operations with applicable laws, follows industry standards (including the Code of Best Practice of the Association of Financial Companies in Poland), social standards (including the Universal Declaration of Human Rights), as well as its internal rules, instructions and procedures.

Each Group employee, irrespective of their type of employment and position, is informed about all those regulations during their onboarding and/or position-specific training, and is required to follow them.

The core values at the KRUK Group to be respected in relations with colleagues and associates as well as the Group's external stakeholders are: mutual respect, cooperation, integrity, responsibility and transparency. These are also the personal values of Piotr Krupa, President of the Management Board of KRUK S.A.

Each of the Group employees has access to the rules, instructions and procedures of conduct that are published in the internal *Niezbędnik* resource. The Compliance Department has supported all departments and teams across the Group in interpreting the law and implementing changes in processes or services so that they comply with the principles of ethics and legal regulations. The Group also has a Compliance Committee, responsible for a comprehensive assessment of risks associated with new products and processes, or changes to those existing ones.

DOCUMENTS THAT HELP MAINTAIN THE GROUP'S CORE VALUES

The KRUK Group's values and organisational culture are of great importance to the organisation. They are safeguarded by the following documents applicable at all Group companies:

- Compliance Risk Management Policy. It entered into force in 2019. The policy sets out the main principles for testing, controlling, measuring and monitoring compliance risk at the KRUK Group companies. It also defines the scope of powers and responsibilities of the companies' organisational units in relation to the Compliance Department. The purpose of the policy is also to set out the rules of conduct and supervision of the Group's activities so that they comply with the law and the applicable regulatory guidelines, as well as the principles of ethics. The implementing regulations for the policy are instructions.
- Internal Mediation Policy. The Internal Mediation Policy fosters positive relations between employees, prevents conflicts and workplace bullying. Each employee may submit a request to the Consultation and Mediation Team to initiate

proceedings in his or her case, and the Team may also act on its own initiative. The policy version applied in 2019 was the Internal Mediation Policy as amended in 2018, which extended the protection for employees also in the area of discriminatory behaviour, including harassment and sexual harassment.

- Rules of Procedure of the Compliance Committee. The Rules of Procedure ensure consistent and structured operation of the collective body responsible for issuing collective risk opinions on multi-area and the most complex or sensitive issues that raise suspicion of a serious risk.
- In 2019, the Compliance Department took over the process of conflict of interest oversight and prepared drafts of new, revised Conflict of Interests Management Policy and Gift Policy, which are intended to even better protect the organisation against undesirable phenomena.
- In 2019, the Compliance Department also introduced the Compliance Checks Instruction, defining the procedures for inspecting compliance of the KRUK Group companies' processes. It is an implementing act for the abovementioned Compliance Risk Management Policy. Based on this Instruction, certain processes or process parts specified in the annual audit plan were inspected in 2019.
- The Anti-Corruption Policy. The document, which helps to prevent corruption and misconduct at the KRUK Group, was implemented earlier and is still in force.

KEY ETHICAL VALUES AND PRINCIPLES OF THE KRUK GROUP

Client	Business partner	Shareholder	Employees
<ul style="list-style-type: none"> • Respect. • We help them escape the debt trap. • We ensure personal data protection. • We render convoluted and incomprehensible legalese plain and readily understandable to all our customers. 	<ul style="list-style-type: none"> • We do not make promises we cannot keep. • We approach our business partners' needs on a case-by-case basis. • We respect our competitors. • We maintain the confidentiality of information. • We avoid conflicts of interest. • We work with transparency and integrity. • We 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, • clear communication, • transparency. 	<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 provide our employees with ample opportunities to improve their qualifications.

SOURCE: COMPANY

In late April 2019, a new company, Wonga, joined the KRUK Group. Following the acquisition by KRUK S.A., no changes were made to the management board and the Wonga team. The values and policies applied by the Wonga Group are similar to those of the KRUK Group. These are: direct communication in simple and understandable language, innovation and flexibility in adapting to the business environment, partnership and teamwork, treating employees and customers in an ethical manner and with respect. In addition to these values, Wonga has the Code of Ethics and the Compass compliance management policy in place.

Documents that help maintain the core values at Wonga

- - Compliance Management Policy. Wonga strives to ensure that its operations comply with the law, internal regulations, and generally accepted ethical standards. At the same time, it has solutions in place to address the compliance risk. The underlying principle of Wonga's compliance culture is that every employee should be guided by the highest ethical standards in performing their duties. Wonga's values and standards are included in the Code of Ethics.
- The company encourages the department heads to support Wonga in promoting a culture of compliance in their teams. Considering our values and the best practices that we have developed and follow in our everyday work, implementation of the Compass policy is another step on the path of responsible and ethical growth of Wonga's business.
- - The key elements of the Compass policy are preventing, detecting and responding adequately to any form of non-compliance with laws, internal regulations or generally accepted ethical standards.

[G4-56]

KRUK GROUP'S ORGANISATIONAL CULTURE

The KRUK Group is highly aware of the importance of

organisational culture in building employee engagement and shaping the desired attitudes and behaviours. The current methodology applied at the Company since 2016 is based on the cultural dimensions theory of Geert Hofstede. A relevant survey is conducted, in accordance with the Company's internal assumptions, at all KRUK Group companies on a regular basis but not more frequently than once every two years.

The survey each time confirms that the organisational culture across the KRUK Group 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.

The organisational culture at KRUK S.A. is expressed mainly through:



PARTNERSHIP
(small power distance)



COOPERATION
(formerly: femininity)



FREEDOM OF EXPRESSION
(little formalism)

In practice and in the daily life of the Group this means that employees:

- are able to build partnership-based relations regardless of their job title or position at the Group, which creates room for open discussions, trust and efficient cooperation between them;
- like cooperating and supporting one another: team's result is as important as individual success;
- value friendly working atmosphere;
- respect the emotions and opinions of others – they allow free expression of emotions and opinions, approach them with understanding, and foster interpersonal relations.

In 2019, the employees continued to use the Employee Suggestion Scheme, under which employees submit their ideas and proposals on how to optimise and improve working conditions at the KRUK Group. The table below shows the number of proposals submitted and implemented under the employee suggestion system in 2019 compared to 2018. The percentage of suggestions implemented relative to the number of submissions was nearly 21% in 2018 and 12% in 2019.

Number of proposals for workplace optimisation made by KRUK Group employees

KRUK Group	2018	2019
Number of proposals	2392	1394
Number of implemented suggestions	495	170

SOURCE: COMPANY

LEGAL AND SOCIAL STANDARDS

The Compliance Department monitors changes in the law, the positions of market regulators, and the rulings of national and EU courts on an ongoing basis. Accordingly, the Compliance Department provides legal and regulatory information to the KRUK Group companies and their organisational units, and is consulted on the implementation of changes in the companies' processes. In 2019, there were many changes in the law, as discussed in more detail in Section 4.2.6.

In addition, the Polish companies of the KRUK Group maintained ongoing monitoring of the activities of general and sectoral regulators on the financial services market:

- President of the Office of Competition and Consumer Protection,
- President of the Personal Data Protection Office,
- Polish Financial Supervision Authority,
- Financial Ombudsman,
- General Inspector of Financial Information.

As the Group parent, KRUK S.A. is a member of associations through which it can express its views on legislative proposals.

KRUK Group companies are members of the following organisations:

- PKPP Lewiatan (KRUK S.A. and ERIF BIG S.A.),
- Association of Financial Companies in Poland (ZPF, formerly KPF – Conference of Financial Companies in Poland) (KRUK S.A., ERIF BIG S.A. and Wonga Sp. z o.o.),
- 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,
- Polish Association of Listed Companies (KRUK S.A.),
- United Nations Global Compact (KRUK S.A.),
- ACCIS (ERIF BIG S.A.),
- Financial Development Market Foundation (ERIF BIG S.A.).

[G4-16]

As a member of the Association of Financial Companies in Poland, at each Group company that belongs to this organisation we have committed to applying its Best Practices, specifically dedicated to credit management companies, as well as loan companies and business intelligence agencies. The Best Practices constitute the Association's code of ethics and are designed to set high standards for its members in the area of relations with other businesses and, in particular, with consumers. Other KRUK Group companies also comply with the Best Practices of the Association of Financial Companies in Poland. In 2019, the KRUK Group took an active part in the revision of this code of ethics in order to ensure higher standards of consumer protection. The consolidated text of the Best Practices of the Association of Financial Companies in Poland is available at https://zpf.pl/pliki/etyka/ZPF_zasady_dobrych_praktyk_12.2019.pdf

It can also be accessed at the [kruk.pl](https://pl.kruk.eu/partnerzy-biznesowi/o-nas) website at <https://pl.kruk.eu/partnerzy-biznesowi/o-nas>

As a company listed on the Warsaw Stock Exchange, KRUK S.A. complies with the Code of Best Practice for WSE Listed Companies.

The Company's clients incur debts for various reasons, which include unforeseen fortuitous events. Sometimes they need psychological support, which the Company provides them with thanks to cooperation with a specialist non-profit organization. The organisation offers advice and assistance to debtors who struggle with depression or report suicidal thoughts. The Company has established internal procedures to deal with situations where a client reports a threat to health or life.

[G4-56] [G4-16]

7.1

CATEGORY: ECONOMIC

We are the leader of the debt management market in Central Europe. In accordance with the Company's vision, we aspire to be one of the world's largest groups working with individuals facing i.a. the problem of excessive debt. The Group strives to achieve this objective step by step, by setting trends on the market and expanding our operations abroad. Customers are at the centre of the KRUK Group's activities, which is why their needs, expectations and satisfaction are regularly examined.

7.1.1

ECONOMIC PERFORMANCE

KRUK GROUP ECONOMIC PERFORMANCE IN 2018 AND 2019

PLNM	2018	2019
REVENUE	1 170	1 259
OPERATING EXPENSES	(691)	(819)
SALARIES, WAGES AND EMPLOYEE BENEFITS	(310)	(357)
PAYMENTS TO PROVIDERS OF CAPITAL	(190)	(210)
PAYMENTS TO GOVERNMENT	(26)	(34)
COMMUNITY INVESTMENTS*	-	-
ECONOMIC VALUE RETAINED	262	196

* THE KRUK GROUP DOES NOT RECORD SOCIAL INVESTMENT EXPENDITURE.

SOURCE: COMPANY

[G4-EC1]

7.1.2

EMPLOYEE COMPENSATION

In 2019, the Group applied the same employee compensation rules as those reported in previous years. All these rules are described in detail in the Group's HR and payroll policies.

The regulations contained in the abovementioned documents 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 and the call centre.

RATIO OF STANDARD ENTRY LEVEL SALARY BY GENDER TO MINIMUM PAY

KRUK GROUP	2017	2018	2019
WOMEN	236%	213%	207%*
MEN	272%	273%	250%*

*INCLUDING WONGA.
SOURCE: COMPANY

[G4-EC5]

MARKET PRESENCE

In connection with the KRUK Group's international expansion, in 2019 the Mobility Policy was introduced, which allows us to structure the rules for employee migration between companies located in different countries. The policy's objective is to ensure transfer of ideas, best business practices and KRUK values between the Group companies. At the same time, this policy gives employees the opportunity to develop their potential in dynamic conditions. Employees can take long- or short-term employment at a Group company located in another country.

It should be added that due to cultural differences between the countries and between local approaches to debt, the Group's products may differ slightly to ensure their compliance with the laws and regulations applicable in each market.

Most employees on the local markets (including foreign ones) are nationals of the given country.

Wonga, which has been part of the KRUK Group since April 30th 2019, continues to operate on the basis of its previous experience and structures, with additional supervision by the Wonga Supervisory Board. Wonga's results are consolidated into the Group's financial figures.

7.1.3

INDIRECT ECONOMIC IMPACTS

FINANCIAL EDUCATION IS STILL IMPORTANT

The KRUK Group continues to engage in various initiatives driven by the needs of both our employees and external stakeholders, including communities in the countries where we operate.

One of the key identified social needs is financial education, as referred to above in the Material aspects and indicators section.

Journalists are a group of external stakeholders who contribute to the promotion of financial education. According to various public surveys, mass media are still the main source of financial knowledge for many people. That is why in 2019 debt management industry companies of the Association of Financial Companies in Poland (formerly KPF – Conference of Financial Companies in Poland) engaged again in the joint project Debt Collection? Everything Clear!, run within a working group of the Association members. The project is designed to educate people on the laws and changing regulations governing debt recovery in Poland. As part of the working group, KRUK S.A. presents its opinions on and co-authors press articles and broadcasts on debt management in Poland. Representatives of the Association of Financial Companies in Poland, as an independent organisation, also speak in the media about the impact of payment bottlenecks, for instance on the development of the economy.

In cooperation with other debt-collection companies – members of the ZPF, KRUK builds a positive image of the industry. It is particularly important to explain to the media the changing legal framework for the operation of such debt management companies, loan companies or business information offices.

The Association of Financial Companies in Poland, acting on behalf of the companies engaged in the project but in close cooperation with them, prepares educational press materials.

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

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

THE LEVEL OF FINANCIAL KNOWLEDGE AMONG THE PUBLIC IS STILL AT A BASIC LEVEL

Social research carried out by the Group in 2019 shows that the knowledge of finance in society is still at the very basic level. Therefore, the Group continues to focus most of its CSR activities on financial education.

The Poles' Attitudes Towards Debt survey commissioned by KRUK S.A. and conducted by IQS, a research company in October 2019 on a representative group of 1,000 Poles aged 18+ showed once again that many people struggling with debt need knowledge and advice on how to deal with it.

It follows from the survey that almost 60% of Poles do not know how they could manage to pay off their debts and would need help in this respect, and every fifteenth Pole (7%) would expect someone else to manage the debt settlement for them. The largest group among those respondents are people aged

18-24 (as many as 12% declare that they would expect support in paying off their debts). Similar conclusions concerning are drawn from research conducted by other Group companies.

This is why the Group's educational initiatives are targeted at many social groups, including debtors, young people, business partners, as well as institutions working directly with people in debt. Wonga has created the Kapitalni.org platform whose objective is to provide real and measurable financial education that influences consumer behaviours and attitudes. Wonga encourages its customers to learn finance by offering them certain benefits. For completion of one of the financial education paths or 10 courses, Wonga pays the customer PLN 10. The platform continues to be expanded. A feature added in May 2019 is Pre. Kapitalni, an educational game enabling the players to tackle everyday financial problems in a safe, virtual world. It is the first game of this type on the Polish market,

The Kapitalni.org platform is designed to constantly expand the financial knowledge of those who use it, promote simple but effective education, and raise awareness of the importance of financial knowledge and decisions made on its basis. The platform was created in cooperation with partners, including KRUK S.A. and Rejestr Dłużników ERIF BIG S.A. The honorary partner is the Association of Financial Companies in Poland (formerly KPF – Conference of Financial Companies in Poland).

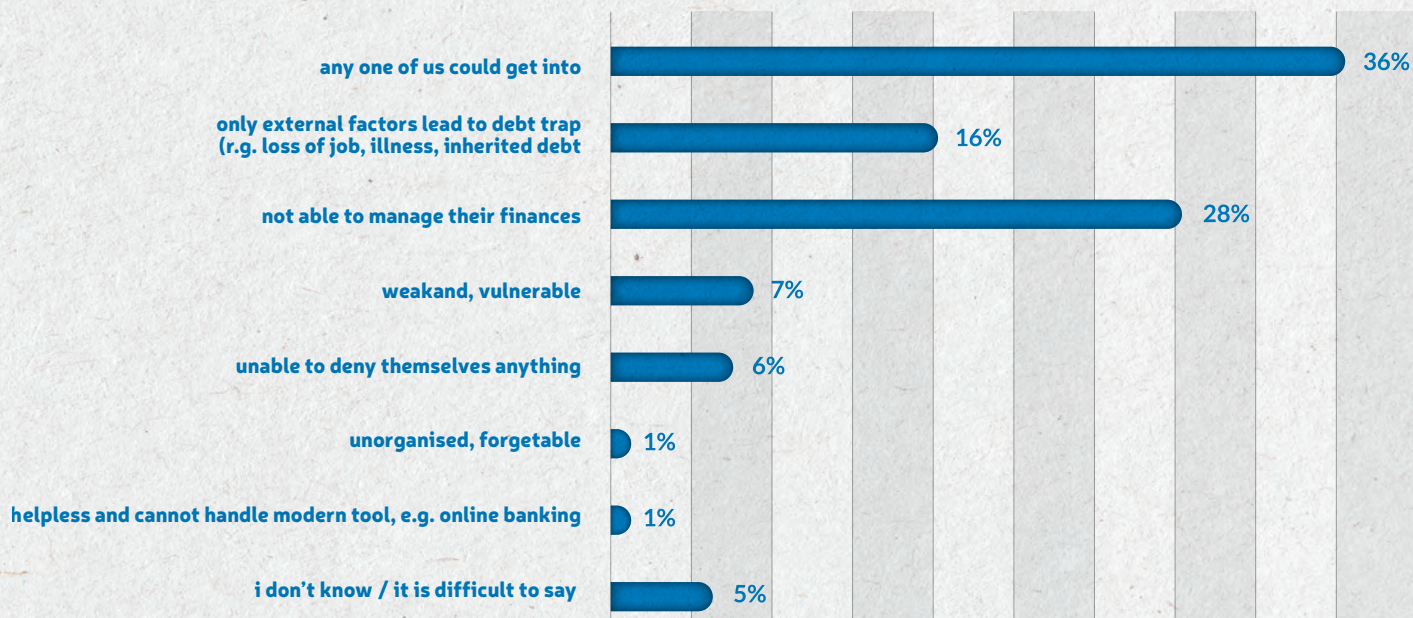
In 2019, the platform was visited by more than 850,000 users, who completed more than 11,000 financial personality tests and 5,600 courses, educational paths and profiles in the Pre. Kapitalni game.

In 2019, with the support of the Maison&Partners research house, Wonga conducted the third time the survey Financial Knowledge of Poles. A vast majority of the respondents (80%) admitted that financial education of the public is important, and almost 60% feel they need more personal knowledge in this area. Public knowledge of such subjects as household budget management, credit and debt, saving, insurance, consumer rights or taxes proves to be low. The average score in the 2019 knowledge test was 13.3 points (out of the maximum 27) and this is the score since 2017, when the first test was organised.

ANALYSIS OF THE SOURCES OF POLES' INDEBTEDNESS

KRUK S.A.'s 2019 Poles' Attitudes Towards Debt survey confirmed again that debt can happen to anyone and is not something we can control completely. This is the opinion of over half of the respondents (52%). On the other hand, more than 40% say that debt is a consequence of a man's lack of resourcefulness.

People get into debt most often ...



WHAT DO LOANS HAVE TO DO WITH ENVIRONMENTAL PROTECTION?

In 2019, KRUK S.A. conducted the campaign Let's Pay Back Our Debt to the Earth, which addressed excessive consumerism of Poles. As part of the financial awareness initiatives, a survey was carried out which showed how Poles plan taking out loans and what their needs are in this respect.

In doing so, the Company pointed out the relation between excessive consumerism and incurring financial liabilities on the one hand, and the climate crisis that affects everyone on the other. Below are presented infographics prepared on the basis of the results of the study Consumerism and Environmental Awareness of Poles completed in 2019.

29 July 2019

Earth Overshoot Day

Today, we have used up Earth resources available in 2019 all over the world. From now on, we live at the expense of our planet, which is not able to renew its resources.

In 2019

the fastest resources of the Earth were used by Qatar - February 11

for the longest time from the Earth's resources will use Kyrgystan - till December 26

For how long in 2019 were the resources of the Earth sufficient in the countries in which the KRUK Group operates?



Data Source: Global Footprint Network

LET'S REPAY DEBT TO THE EARTH

Consumption increases ecological debt - the amount of our planet depends on how much and what you buy.



You can read more about the Let's Pay Back Our Debt to the Earth campaign in the section devoted to the natural environment.

WE HELP PEOPLE TO LIVE WITHOUT DEBTS

Since 2018, the KRUK Group has been encouraging people to take the free online course Live Debt-Free,

It was prepared in cooperation with Tomasz Jaroszek, a financial blogger, and can be found at www.kurs.kruk.pl. The course consists of 12 lessons on how to start repaying debts, manage household budgets, start saving, change habits, and similar topics. The lessons can be taken by people with visual or hearing impairments, as they can be listened to in audio form or read as a transcription. The course includes numerous spreadsheets, exercises, articles, and tools to calculate the financial cushion, household budget, spending money, etc.

As part of the course promotion, on January 10th 2019 KRUK and Tomasz Jaroszek, who runs the Live Debt-Free course, organised a webinar entitled How to Change Your Financial Habits?. Its live broadcast was watched by about 40 people. By January 4th 2019, 374 people had taken the course, and by January 7th 2020 the number rose to 890.

DAY WITHOUT DEBTS

The Day without Debts project is intended to serve as an annual reminder of the importance of controlling one's finances, responsible planning of expenses, as well as paying one's all liabilities. It is an initiative of the KRUK Group, which is joined by other companies every year.

In 2019, this day was celebrated in Poland, Romania, Czech Republic and Slovakia. The educational and support activities, one objective of which is to inspire media and consumer interest, are tailored to the local trends, needs and culture in each of these countries.

In Poland, a special report was prepared for the Debt without Debts, based on results and findings of the survey Poles' attitudes towards debt, commissioned by KRUK S.A.'s from IQS. The report highlights the differences and similarities in the perception by different generations of issues related to emotions and other problems associated with debt.

In partnership with Newseria, a news agency, the Company published the material, accompanied by a press release and a commentary by Roman Pomianowski, a psychologist at the Debtor Support Programme Association who specialises in helping debtors. The report attracted significant interest of the media: it was published in the press and in online news services, and we were invited to speak in radio and television programmes. In total, the initiative was covered in 500 publications.

The details are presented below::



RADIO

7 radio stations



TV

2 TV stations



INTERNET + SOCIAL MEDIA

477 publications

This means that the subject is still relevant and important.

A well-proven initiative undertaken on the occasion of the Day without Debts in the Czech Republic and Slovakia is delivery of free-of-charge outreach advice service. In 2019, advice outlets, manned by our experts, were opened in 15 towns and cities in the two countries. A workshop was also organised at an employment office in the Czech Republic on how to communicate with persons who are in financial distress. In Slovakia, the Group organised two lectures for seniors on how to avoid debt.

As in Poland, a press release was drawn up on the basis of a small-scale survey on finances of young people, and the results of the survey were presented at a press conference. Below is the number of publications in the Czech Republic and Slovakia.



PRESS

9 publications



RADIO

9 publications



PRESS

14 publications



TV

5 TV stations

INTERNET + SOCIAL MEDIA

79 publications

A total of 111 people took advantage of the advice points, and the lectures were attended by 75 seniors. The projects were co-organised by job centres.

In Romania, for the Day without Debts we prepared an information campaign as part of which 10-second TV spots were shown at the Otopeni International Airport and in the Bucharest subway. The Open Door Day was organised at KRUK's offices in Romania. Who could also take part in an internal photo contest organised for them by United Way, an NGO, with the Day without Debts as the main theme.

CHARITABLE SPONSORSHIP

The KRUK Group has in place a Charitable Sponsorship Policy, which provides a detailed description of the scope of assistance and the nature of initiatives that the Group can support. In 2019, given the Group's involvement in environmental protection measures, the Policy was extended to include activities in this area.

The health, wellbeing and physical fitness of the employees is important for the KRUK Group. Therefore, the Group companies are committed to promoting a proactive and healthy lifestyle. They support the development of young people and care for clean environment which is a common good. These objectives are pursued on all markets.

In 2019, for the seventh time, KRUK S.A. was the main sponsor of the charitable Business Run in Wrocław. The proceeds were donated for the treatment of beneficiaries of the Everest Foundation, the event's organiser.

As a reminder, 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. Therefore, the run is treated by the employees as a corporate event, an opportunity to integrate with their colleagues. In 2019, 150 Group employees participated in the run.

In 2019, the charity run took place in Italy and the Group's Italian subsidiary was involved in its organisation, with about 50 of its employees joining the event. The money collected during the run was donated for the treatment of the patients of the Presidio Ospedaliero del Levante Ligure Pediatrics and Neonatology Department.

The Group's employees readily joined in helping selected families as part of the Noble Package project, and supported the charges of the 'See Me' Foundation. As part of its internal initiatives, our Spanish company organised a Christmas gift collection campaign for orphaned children.

In 2019, KRUK S.A. was also one of the sponsors of the Concert of Hope, organised by the 'To the Rescue of Kids with Cancer' foundation, the proceeds from which were used to help patients of Cape of Hope, a regional paediatric oncology centre in Wrocław.

In Romania, the Group continues to cooperate with NGOs and work together with them to promote corporate social responsibility, in particular in the area of financial education. Employees volunteered to conduct educational classes on financial management at eleven secondary schools in Romania under the Junior Achievement Romania programme. The workshops were attended by 1,541 students and involved 35 members of faculty from 36 universities.

The Group also continued cooperation with the United Way Romania foundation, which is dedicated to supporting young people in their further education or enabling them to start their adult lives if they are no longer covered by the child protection system. Seven of our volunteers were involved in the programme. The participants were 184 children (i.e. 163 more than in 2018) and 40 school graduates ready to start their careers.

Since 2018, the Group's Romanian subsidiary has cooperated with the non-profit organisation Hope and Homes for Children, forming a part of a global movement for the eradication of orphanages. Its efforts are geared towards preventing separation of children from parents, supporting their social and professional development, and training volunteers on the child protection system. In 2019, its support was already used by 27 children (7 more than in 2018).

In Spain, the Group was one of the sponsors of a concert prepared by Generating Equality, an organisation engaging in activities fostering gender equality. The concert was part of the celebrations of the International Day for the Elimination of Violence against Women. It featured presentation of works created based on experiences of women who were victims of gender-based violence, performed by popular Spanish artists. In addition, a Solidarity Lottery was held at our company in Spain to raise the employees' awareness of gender equality and to help women who had suffered gender-based violence.

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

- co-financed the activities of amateur sports teams in Poland and Romania,
- actively participated in blood donation sessions held in association with regional blood donation and haemotherapy centres in Poland

In 2019, the projects which received financial support from the KRUK Group included:

- participation of the KRUK Romania football team in the AMCC championship; The team took first place and won the Gold Cup;
- participation in sport fishing competitions organised by the Corporate Olympic Games; the KRUK Romania team took third place;
- participation in the Ziua B cycling competition in Cernica; KRUK Romania employees won the Gold and Silver Cups;
- participation of the KRUK's Polish football team in the four league games of Śląsk Wrocław PRO; the Company sponsored two rounds of the spring and autumn tournaments. In the first round, KRUK's team took second place and won silver medals, thus earning promotion to the third league of Śląsk Wrocław PRO.

[G4-EC7]

7.1.4

PROCUREMENT PRACTICES

The KRUK Group cooperates with many local suppliers of goods and services which are essential for many areas of its operations. Our procurement categories include IT hardware, software and services, office equipment and supplies, fleet maintenance, marketing services, etc.

[G4-12]

PROCUREMENT PROCEDURES AND SUPPLIERS

In 2019, we conducted 169 procurement procedures at the Polish companies of the KRUK Group (excluding Wonga). That is 47 more than in 2018

COLLABORATION WITH EXTERNAL SUPPLIERS

The KRUK Group cooperates with external providers of services and suppliers of goods based on the following model:

- selection of the supplier of goods or services in a procurement process is based on: pre-defined specifications, 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,
- purchase order is approved in keeping with the Group's approval processes for expenditure included in the budget,
- a contract or order is signed,
- the contract is performed or the order is sent to the supplier,
- receipt of the delivery,
- receipt of the invoice,

**NUMBER OF THE KRUK GROUP'S SUPPLIERS IN 2017–2019,
BY COUNTRY AND PERCENTAGE SHARE OF FOREIGN SUPPLIERS IN A GIVEN COUNTRY.**

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	TOTAL NUMBER OF SUPPLIERS	PERCENTAGE SHARE OF FOREIGN SUPPLIERS IN THE LOCAL MARKET
	2017	2017	2018	2018	2019	2019
POLAND*	1071	1%	1103	3%	1145	4%
ROMANIA	807	4%	945	3%	653	7%
CZECH REPUBLIC	584	21%	573	30%	693	42%
SLOVAKIA	32	9%	30	37%	26	27%
SPAIN	374	34%	253	3%	263	10%
ITALY	-	-	899	2%	1074	5%

*EXCLUDING WONGA

THE GROUP WORKS MAINLY WITH LOCAL SUPPLIERS, WHO IN 2019 ACCOUNTED FOR 84% OF THE TOTAL NUMBER OF SUPPLIERS OF THE KRUK GROUP.

- approval of the payment,
- execution of the payment,
- annual assessment of the key suppliers.

At the Group's 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 in Poland, select the best suppliers and maintain the optimum relation between the price and quality of purchased goods or services, and how to settle contracts, always ensuring that our activities should be consistent with the Group's values, mission, vision and strategic objectives.

In their dealings with suppliers, all Group companies are bound by the following principles:

- 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, the Polish KRUK Group companies (excluding Wonga) 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 made familiar with the Standards of Ethical Conduct for Suppliers in Relations with Employees of the

KRUK Group Companies, The standards describe the KRUK Group values and apply to all existing and prospective suppliers. They must also be observed in relations with employees.

The KRUK Group selects its suppliers

- based on competitive bids,
- in single-source procurement processes,
- based on contract renegotiation,
- under master agreements.

The basis for building credibility and trust between the employees and the suppliers is zero tolerance for any form of misconduct, including corruption; this is why anti-corruption clauses are included in contracts with the suppliers.

In Poland, the Group uses a CSR questionnaire in procurement processes where the transaction value exceeds PLN 100,000. Based on the questionnaire, suppliers are evaluated in terms of their environmental, social and economic ethics. This allows the Group to verify whether its key suppliers comply with ethical principles and standards. The questionnaire contains questions about the supplier's best CSR practices with respect to:

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

In 2019, 65% of all suppliers taking part in our procurement processes completed the CSR questionnaire.

In the CSR survey, suppliers responded that they, among other things:

- engage in dialogue with the local communities and in charitable activities, organise internship programmes;
- employ staff in a transparent manner and in compliance with applicable laws, take care of their health and safety, respect their dignity, engage in dialogue with the employees, are open to their initiatives, and present them with training and educational opportunities;
- take care to ensure appropriate quality of service for their customers, conduct their business in accordance with the rules of law and ethics, follow the principles of ethics in relations with their suppliers and competitors, are flexible and adapt their products and services to the needs of their customers;
- take measures to reduce the consumption of raw materials, e.g. printing paper, energy; have waste management policies in place, limit business trips by using conference calls instead.

[G4-EC9] [G4-12]

7.2

CATEGORY: ENVIRONMENTAL

As part of public consultations, from March 15th to March 18th 2019 KRUK S.A. conducted an online public survey on the Ariadne panel. For details, see the Important aspects and indicators section.

Fourteen per cent of the respondents pointed to environmental protection as an activity in which a credit management company such as KRUK S.A. should be involved.

The KRUK Group provides financial services which cause no direct environmental pollution; however, in the times of the climate crisis, the Group believes that environmental issues are relevant to all its stakeholders, including employees, business partners and customers.

Accordingly, based on the Management Board's decision, in April 2019 KRUK S.A. joined the United Nations Global Compact and engaged in activities related to compliance with the UN Global Compact's ten principles relating to the following areas: human rights, labour, anti-corruption and the environment.

To show the impact of increased consumerism on the natural environment, in May 2019 KRUK S.A. conducted a small-scale public survey Consumerism and Environmental Awareness of Poles on a representative sample of 1,106 Poles. Results of this survey were used to demonstrate how ill-considered loans affect home budgets and at the same time the environment. KRUK S.A. also showed the analogy between financial debt and ecological debt by preparing the public campaign Let's Pay Back Our Debt to the Earth. It lasted from May to December 2019, and its culmination was the Ecological Debt Day, which in 2019 fell on July 29th.

As part of the campaign, press releases were prepared for the national and local media: 'You do not have to be financially indebted to be a debtor', 'World Environment Day: what do loans have to do with environmental protection?', 'International Ecological Debt Day occurs ever earlier in the year – one reason is excessive consumerism'.

In cooperation with EcoCentrum of Wrocław KRUK also organised workshops for the KRUK Group's employees – volunteers, on the protection of pollinator insects and on building 'insect hotels'. On the Ecological Debt Day, an internal event was organised during which the KRUK Group abandoned plastic cutlery, which was replaced with metal cutlery.

Based on the Group's calculations, by giving up plastic cutlery in 2019 the Group reduced annual consumption of plastic by over 810 kg.

For several years, water distributors have been available at the KRUK Group offices, and employees have used their own cups. However, in order to encourage employees to drink tap water instead of water from plastic bottles, the Group commissioned an environmental research laboratory Ekolabos Sp. z o.o. of Wrocław to test samples of tap water from the company's Polish branches. The results confirmed that such water can be consumed without boiling.

Additionally, as part of the Let's Pay Back Our Debt to the Earth campaign, the Group joined the Bicycle Friendly Employers initiative of the All For Planet foundation and encouraged the employees to commute to work by bike, especially in the summer. Employees could also take advantage of free-of-charge

technical check-up of their bikes. It was organised at the Polish companies of the KRUK Group.

Similar initiatives were undertaken at the Group's Spanish company. In Italy and Spain, the Group held a mini campaign on waste recycling.

The Romanian subsidiary, on the other hand, engaged in a tree planting initiative in Stefanesti near Bucharest. The event was attended by 50 volunteers who planted 5,400 oak trees.

The Romanian company also sponsored Quantum Robotics classes on climate change and environmentally friendly solutions relying on robots.

The Italian subsidiary also conducted pro-environmental educational activities among its employees, which included introduction of biodegradable coffee cups and, during an integration event, biodegradable water bottles were distributed among the employees.

Polish and Italian subsidiaries collected spent batteries, with dedicated waste containers placed at the Group's offices in these countries.

The aim of all these activities was to bring more attention of both our employees and the public to issues related to the climate crisis and ecological debt, as well as to the similarities between the impact of financial and ecological debt on human health and the quality of life.

WEBINAR: 2xEKO OR HOW TO LIVE ECONOMICALLY AND ECOLOGICALLY?

According to the survey conducted by KRUK S.A. on the Ariadne panel in May 2019 on a representative group of 1,106 Poles aged 18 and over, as many as 84.3% of Poles are aware of the impact of responsible buying on environmental protection. On the other hand, the survey showed that one in five respondents buys things although they do not need them. Excessive consumption, in turn, contributes to the increasingly rapid depletion of the Earth's resources.

Loans are one of the most common causes of debt. According to the KRUK Group's data, approximately 56% of debt cases are caused by non-repayment of a loan. A survey conducted at the end of July and at the beginning of August 2018 showed that almost 30% of people in debt are indebted because they overestimated their financial capabilities. Their debt repayment instalments proved too high and they were unable to pay them. Therefore, in 2019, in its media communications KRUK emphasized that being a responsible consumer, shopping more thoughtfully and avoiding wastefulness, have an impact not only on the cash in people's wallets, but also on the Earth's resources. The Company engaged well-known bloggers in its activities, with whom it organised a webinar on how to live economically and, as if by the way, in an environmentally-friendly manner. The webinar was held by experts: Sylwia Majcher, a journalist and blogger specialising in the 'zero waste' concept, and Tomasz Jaroszek, a journalist and financial blogger from Doradca.tv. The experts presented how to manage financial and food resources in order to protect wallets and also the environment.

The webinar was promoted in various channels in social media devoted to economy and the environment, e.g. our experts'

fanpages on Facebook and KRUK S.A.'s fanpage. It was broadcast live and its recording is available on YouTube, in the KRUK Polska channel. KRUK also created a series of episodes of 2xEKO or how to live economically and ecologically?, which were promoted in the natemat.pl service.

The purpose of the webinar was to:

- educate the participants and viewers, and systematise knowledge of both finance and conservation of resources, saving money and protecting the environment;
- draw attention of the public to the concept of excessive consumerism;
- strengthen KRUK's image as a company that cares about the natural environment.

The 2xEKO" webinar is a feature enhancing our online course Live Debt-Free. KRUK S.A. intends to continue its educational efforts to raise financial awareness, as well as the pro-environmental initiatives, which have an impact on both budgets and environmental protection.

In its operations, the KRUK Group identifies areas that adversely affect the natural environment. These include consumption of energy and paper, and production of exhaust gases by company cars. By using supplies of various materials, including office supplies, the Group contributes to the volume of CO2 emissions to the atmosphere.

Traditional letters continue to be one of the ways for many of the KRUK companies to contact their clients, so the Group monitors the consumption of paper. The Group seeks to reduce it, taking into account legal regulations, procedures, as well as customer needs and technological changes. Therefore, an Instruction for the use of e-documents has been introduced in all companies to enable employees to exchange documents in electronic form.

Additionally, to support communication with clients (including debtors), the e-KRUK online platform was launched in 2017. This electronic solution reduces the amount of traditional, paper-based correspondence.

7.2.1

RAW MATERIAL AND CONSUMABLES USED

[G4-EN1]



Consumption of paper in 2017: **224.74 tonnes**
 Consumption of paper in 2018: **151.79 tonnes**
 Consumption of paper in 2019: **222.15 tonnes**

Disposal of waste paper in 2017: **221.76 tonnes**
 Disposal of waste paper in 2018: **206.34 tonnes**
 Disposal of waste paper in 2019: **37.24 tons**
 (additionally 1440 litres of waste paper were disposed of in Wonga)



In 2019, The Group **changed** the methodology of counting the weight of recycled waste paper. In earlier **reports**, the weight of recycled waste paper was **estimated** on the basis of the number of 12m3 containers, the weight of which could **differ** significantly from the actual weight of waste paper.

In the reporting period, the weight of recycled waste paper was given according to the data provided by waste paper recipients.

THE ABOVE IS AGGREGATE DATA FOR ALL GROUP COMPANIES



7.2.2

ENERGY CONSUMPTION

TOTAL CONSUMPTION OF ELECTRICITY

ANNUAL CONSUMPTION	2017	2018	2019
TOTAL CONSUMPTION OF ELECTRICITY [MWH]	4805,38	5357,74	5199,80*
TOTAL CONSUMPTION OF ENERGY FROM NON-RENEWABLE SOURCES [MWH]	279266,37	17686,19	17431,13
INCLUDING GASOLINE [MWH]	1431,20	1175,12	1503,59
INCLUDING DIESEL OIL [MWH]	10861,54	12245,83	12234,98
INCLUDING NATURAL GAS [MWH]	266973,64	4265,24	3692,56
GASOLINE [M3]	154,20	126,61	162,00
DIESEL OIL [M3]	1111,03	1252,63	1251,52
NATURAL GAS [M3]	28334,56	474,32	413,79

*INCLUDING WONGA
SOURCE: COMPANY

In 2019, the total consumption of energy from non-renewable resources and electricity decreased. Total electricity consumption has fallen to 5,199.80 MWh, as the consumption of natural gas by the Group is decreasing. Energy consumption from non-renewable sources is also decreasing, as the Group's total CO₂ emissions dropped by 8,454.92 tonnes

As in 2018, in 2019 the Group's activities involved the use of company cars by employees. The table below also present CO₂ emissions by the vehicle fleet.

[G4-EN3]

7.2.3

EMISSIONS

TOTAL CO₂ EMISSIONS

ANNUAL CO ₂ EMISSIONS AT THE KRUK GROUP	2017	2018	2019
CO ₂ emissions from electricity purchased for the building's needs [tonnes]	3995,67 tCO ₂ e	4454,96 tCO ₂ e	3975,57 tCO ₂ e*
CO ₂ emissions related to transport and fuel combustion in the engines of company vehicles [tonnes]	57185,07 tCO ₂ e	4423,82 tCO ₂ e	4479,35 tCO ₂ e
Total CO ₂ emissions at the organisation	61180,75 tCO ₂ e	8878,78 tCO ₂ e	8454,92 tCO ₂ e

*INCLUDING WONGA
SOURCE: COMPANY

[G4-EN15][G4-EN16]

In 2019, as in previous reporting years, the KRUK Group did not receive any penalties for non-compliance with environmental laws and regulations.

[G4-EN29]

7.3

CATEGORY: SOCIAL

7.3.1

EMPLOYMENT

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		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
WOMAN	271	160	57	0,10	0,05	0,02	18	13	2	0,01	0	0	301	159	45	0,11	0,05	0,01	590	332	104
MEN	171	91	56	0,06	0,03	0,02	32	5	4	0,01	0	0	233	115	43	0,09	0,03	0,01	436	211	103
TOTAL	442	251	113	0,16	0,08	0,04	50	18	6	0,02	0	0	534	274	88	0,2	0,08	0,02	1026	543	207

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		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
WOMAN	163	114	72	0,06	0,03	0,02	29	4	2	0,01	0,001	0,001	209	155	82	0,08	0,05	0,02	401	273	156
MEN	140	71	48	0,05	0,02	0,01	35	11	4	0,01	0,003	0,001	149	84	53	0,06	0,02	0,02	324	166	105
TOTAL	303	185	120	0,11	0,05	0,03	64	15	6	0,02	0,00	0,00	358	239	135	0,13	0,07	0,04	725	439	261

[G4-LA1]

At the KRUK Group, the development of its employees, their health and safety are very important, and therefore it is essential that the Group creates friendly working conditions for them.

KRUK Group employees may:

- use the Company Social Benefits Fund, including in the form of non-cash financial assistance, nonrepayable
- allowances for persons in particularly difficult life situations, or holiday allowances;
- participate in programmes aimed at developing staff's people management potential (a succession programme in Romania);
- receive funding for post-graduate programmes and professional qualifications in all companies;
- receive funding for specialised English learning courses;
- use an English learning platform for free;
- use sports membership cards, providing access to sports and leisure activities, on attractive terms;
- use benefits available under cafeteria plans in Poland, Romania and the Czech Republic;
- receive partial funding for the purchase of eyeglasses upon presentation of a doctor's certificate;
- participate in internal and external training courses provided to enhance the professional skills and qualifications of our employees (in all countries);
- use medical care services for themselves and their families (available in Poland, Romania, Italy and Spain);
- receive group life insurance coverage (in Poland);
- access a library of books for employees, with new books added to the collection every year;
- receive partial funding for team building meetings;
- use flexible work options, including remote work. Under the available options, an employee may:
 - 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.

Also, all Wonga employees may use the benefits in place at the company regardless of the number of their scheduled working hours or status. Access to certain benefits requires a grace period of one to three months from the date of hire. Wonga provides the following employee benefits:

- reimbursement of public transportation fares;
- development and job training, foreign language courses;
- access to the Company Social Benefits Fund (non-repayable assistance);
- assistance with the cost of prescription eyeglasses upon presentation of a relevant certificate from an ophthalmologist;
- option to purchase used equipment, such as computers, mobile phones, etc.

[G4-LA2]

The KRUK Group supports employees who are working parents. This is why solutions were introduced to help them maintain a healthy work-life balance. At the Company's headquarters in Wrocław an on-site room for mothers with children was provided. The Group respects all regulations applying to parent rights in every country where the Group operates.

EMPLOYEES WHO TOOK MATERNITY/PATERNITY LEAVES IN 2019

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

WOMAN	46
MEN	6

Total number of employees who took maternity/paternity leaves, by gender.

WOMAN	48
MEN	8

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

WOMAN	33
MEN	5

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

WOMAN	21
MEN	7

Metrics relating to employees returning to work and remaining employed after taking maternity/paternity leaves, by gender (%).

Return rate for female employees	68,75%
Return rate for male employees	62,50%
Retention rate for female employees	43,75%
Retention rate for male employees	87,50%

SOURCE: COMPANY

[G4-LA3]

7.3.2

OCCUPATIONAL HEALTH AND SAFETY

The KRUK Group has assembled an Occupational Health and Safety Team as a body responsible for monitoring and providing advice and opinion on matters relating to occupational health safety.

Also, Occupational Health and Safety Committees have been established, who work with the Occupational Health and Safety Team. They comprise employee representatives, employer representatives and an occupational physician. During meetings held every three months, the Committees raise important issues related to occupational safety, provide support in formulating proposals to improve working conditions and assist in meeting OSH requirements.

TYPES OF ACCIDENTS AND INJURIES REPORTED BY THE KRUK GROUP IN 2017

fall from heights	1
road traffic accident	1
fall on 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:

women	1
men	7

Accident rates (all accidents at work in 2017):

a) severity rate:	
women	38
men	56,14
b) frequency rate:	
women	0,6
men	4,2
Occupational disease rate	0

Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):

women	38
men	393

Number of fatal accidents:	0
----------------------------	---

SOURCE: COMPANY

TYPES OF ACCIDENTS AND INJURIES REPORTED BY THE KRUK GROUP IN 2018

fall from heights	5
road traffic accident	5
fall on flat surface	5
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 – 16 of which:

women	10
men	6

Accident rates (all accidents at work in 2018)

a) severity rate:	
women	33,31
men	32
b) frequency rate:	
women	5,99
men	3,64
Occupational disease rate	0

Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):

women	334
men	192

Number of fatal accidents:	0
----------------------------	---

SOURCE: COMPANY

TYPES OF ACCIDENTS AND INJURIES REPORTED BY THE KRUK GROUP IN 2019

road traffic accident	11
fall on flat surface	2
fall on stairs	2
dog bite	2
hand burn	1

Total number of accidents – 18, of which::

women	12
men	6

Accident rates (all accidents at work in 2019):

a) severity rate:

women	36,08
men	6,5

b) frequency rate::

women	7,97
men	3,95
Occupational disease rate	0

Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):

women	433
men	39

Number of fatal accidents:	0
----------------------------	---

SOURCE: COMPANY

The KRUK Group's system for reporting and recording accident statistics covers all locations where the Group operates. Employees report accidents at work to the Group OHS officer and to their immediate superiors. 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]

7.3.3

EMPLOYEES WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION

In 2016–2019, the Group employees did not report any occupational diseases. There were no reports of serious or fatal accidents at work.

[G4-LA7]

7.3.4

DEVELOPMENT AND EDUCATION OF EMPLOYEES

The development of the competencies of each KRUK Group employee affects the development of the entire organisation, which is why care is taken to ensure continuous advancement of their skills and qualifications. This is made possible with a wide range of training courses organised and held by internal and external trainers. The courses differ depending on the length of service and the requirements of the position held by a given employee.

In June 2019, KRUK S.A. launched the Trainers Academy as a platform for sharing knowledge among employees. Specialists and experts in their respective fields or processes prepare and conduct training for other employees. The themes range from legal to agile to LEAN.

Provided below are 2019 figures with comparative data for 2018.

AVERAGE HOURS OF TRAINING PER EMPLOYEE IN 2018 AND 2019, BY GENDER

	2018	2019	2018	2019
GENDER	Percentage share		Hours/person	
women	63%	52%	18,65 h/ person	22,37 h/ person
men	37%	48%	20,95 h/ person	22,6 h/ person

ORGANISATION OF TRAINING AND PARTICIPATION OF EMPLOYEES AT KRUK GROUP COMPANIES IN 2018 AND 2019

	Number of training courses	Number of persons trained				
		total	women		men	
			number	Percentage share	number	Percentage share
2018						
Face-to-face training	545	5022	2837	56%	2185	44%
E-learning training	24	7117	4219	59%	2898	41%
2019						
Face-to-face training	1153	9825	5685	55%	4140	45%
E-learning training	741	7312	4306	59%	3006	41%

AVERAGE NUMBER OF TRAINING COURSES PER PERSON AT THE KRUK GROUP IN 2018 AND 2019

2018				2019			
Type of training	woman	men	total	Type of training	woman	men	total
Face-to-face training	2,4	3,1	2,8	Face-to-face training	4,8	5,9	5,2
E-learning training	3,6	4,1	3,8	E-learning training	1,9	1,8	1,8

The number of training courses at the KRUK Group decreased year on year, with the decline particularly pronounced for induction training, as the number of trainees fell due to a lower intake of new hires. Individual training was increased at the expense of group training in 2019.

Wonga.pl launched a new management skills development programme called the Manager Academy in 2019, which is implemented in three groups. Two groups comprise senior managers, and the third group comprises lower-level managers as well as project and product managers.

The first training session was held in September 2019. The first stage is expected to be completed in the first quarter of 2020.

Our employees at the other Group companies 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.

The Group also operates a management skills development programme to support professional advancement of its management staff. In mid-August 2019, a manager induction programme for new hires in management positions was implemented. The programme is meant for employees who have been tasked with managing people for the first time. Its aim is to help develop management skills needed to manage a team. It is an individual support programme involving an internal trainer, the line manager and a HRBP, delivered during the first 100 days of work in a managerial position.

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

Since 2016, the Group has been successfully developing a range of training options available on the e-learning platform, which allows employees to quickly improve their competencies. 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.

One of the e-learning courses concerns employee evaluation, which is in keeping with the Group's culture of providing feedback to fellow employees. Starting from 2018 the employee performance evaluation is carried out once a year (previously it would take place 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.

PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT EVALUATION, BY GENDER AND BY EMPLOYEE CATEGORY (DATA FOR 2019, 2018 AND 2017).

Percentage of employees who received regular performance evaluation in 2019		women	men
KRUK Group	88,9%	62%	38%
Management staff	12%	57%	43%
Other employees	76,9%	62%	38%
KRUK S.A.	93,2 %	61%	39%
Management staff	12%	58%	42%
Other employees	81,2%	60%	40%

Percentage of employees who received regular performance evaluation in 2018		women	men
KRUK Group	90,9%	63%	37%
Management staff	11%	57%	43%
Other employees	89%	62%	38%
KRUK S.A.	93,4 %	60%	40%
Management staff	12%	58%	42%
Other employees	88%	60%	40%

Percentage of employees who received regular performance evaluation in 2017		women	men
KRUK Group	99,05%	61%	39%
Management staff	12%	57%	43%
Other employees	88%	62%	38%
KRUK S.A.	99,6 %	59%	41%
Management staff	12%	58%	42%
Other employees	88%	60%	40%

SOURCE: COMPANY

[G4-LA11]

7.3.5

HUMAN RIGHTS

The KRUK Group operates internal policies designed to protect human rights in line with the standards set forth in the United Nations Universal Declaration Of Human Rights and other documents.

These policies are described in the section "Documents that help us maintain our core values".

As in the previous year, in 2019, the KRUK Group devoted around 80 hours to train its employees in procedures and regulations that promote respect for human rights. These were mainly induction training courses raising awareness of the Group's core values as well as anti-bullying training courses. All employees hired in 2019 (except those on maternity or parental leaves or long-term health care leaves) received the training.

Also, meetings were held with an oncology nurse at the KRUK Group's branches in Wrocław, Szczawno-Zdrój, Piła and Warsaw under the Cancer Prevention Programme in 2019 in recognition of every person's right to health. The scheme provides for a number of educational, disease prevention and diagnostic initiatives designed for employees. Participation is voluntary.

On July 31st 2019, Wonga's Code of Ethics was updated, which sets standards for Wonga employees to follow when dealing with clients and co-workers. Wonga also updated its internal rules on whistleblowing and whistleblower protection, as well as the anti-mobbing policy. All changes were communicated to employees through an internal information campaign.

[G4-HR2]

DIVERSITY AND EQUAL OPPORTUNITIES

THE DIVERSITY CHARTER

The KRUK Group 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, business partners and social stakeholders in those activities. An organisation which adopts the Diversity Charter strives to promote social cohesion and equality. The ideas presented in the Diversity Charter are promoted among all KRUK Group companies, regardless of their location, also as part of recruitment processes. Wonga signed the Diversity Charter in 2019.

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 the KRUK Group's business strategy, which facilitates international expansion, while strengthening innovation 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.

DESCRIPTION OF THE KRUK GROUP'S DIVERSITY POLICY

The KRUK Group has in place a Diversity Policy document, adopted by a resolution of the Company's Management Board on December 8th 2015. The aim of the adopted diversity Policy 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. Under the Policy, each employee is obliged to respect other employees' right to privacy, must not interfere with their personal affairs, and must accept any 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 to 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.

The Group operates in a number of countries, therefore it adjusts its working style and expectations regarding business relations to the rules applicable in foreign markets. For this reason, we respect the festivities and bank holidays celebrated in their respective countries. In addition, all Group employees are informed monthly of the days off of their foreign colleagues celebrating local public holidays.

International meetings of employees from different countries are conducted in English. Each employee has access to an online language learning platform.

[G4-15]

Composition of governance bodies and breakdown of employees according to gender, age group, minority group membership, and other diversity indicators (comparative data for 2017, 2018 and 2019).

7.3.6

EQUAL REMUNERATION FOR WOMEN AND MEN

At the KRUK Group, equal treatment of employees and adequate remuneration for the work performed are very important. Therefore, we promote equal pay within specific job grades and responsibilities. The salaries of men and women in the same positions are comparable – this also holds true for Wonga, which joined the KRUK Group on April 30th 2019.

The differences in the average overall earnings of men and women result from differences in the salaries paid to employees in different areas and positions. The characteristics and availability of workforce on the market partly determines the numbers of men and women employed in particular areas. For instance, there are more men than women in the IT area whereas Call Centre staff are mostly women. This influences the average salary figures.

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
2017							
Women	0	0%	2	7%	11	38%	13
Men	0	0%	5	17%	11	38%	16
TOTAL	0	0%	7	24%	22	76%	29
2018							
Women	0	0%	0	0%	14	54%	14
Men	0	0%	4	15%	8	31%	12
TOTAL	0	0%	4	15%	22	85%	26
2019							
Women	0	0%	2	6%	16	44%	18
Men	0	0%	3	8%	15	42%	18
TOTAL	0	0%	5	14%	31	86%	36

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
2017							
Women	724	22%	68	2%	1228	37%	2020
Men	370	11%	113	3%	832	25%	1315
TOTAL	1094	33%	181	5%	2060	62%	3335
2018							
Women	660	19%	89	3%	1307	39%	2056
Men	328	10%	120	4%	885	26%	1333
TOTAL	988	29%	209	6%	2192	65%	3389
2019							
Women	574	17%	79	2%	1377	41%	2030
Men	311	9%	141	4%	910	27%	1362
TOTAL	885	26%	220	6%	2287	67%	3392

SOURCE: COMPANY

[G4-LA12]

7.3.7

EQUAL REMUNERATION FOR WOMEN AND MEN

At the KRUK Group, equal treatment of employees and adequate remuneration for the work performed are very important. Therefore, we promote equal pay within specific job grades and responsibilities. The salaries of men and women in the same positions are comparable – this also holds true for Wonga, which joined the KRUK Group on April 30th 2019

The differences in the average overall earnings of men and women result from differences in the salaries paid to employees in different areas and positions. The characteristics and availability of workforce on the market partly determines the numbers of men and women employed in particular areas. For instance, there are more men than women in the IT area whereas Call Centre staff are mostly women. This influences the average salary figures.

RATIO OF AVERAGE REMUNERATION IN 2017, 2018 AND 2019, BY GENDER AND POSITION

Manager / other employees	Ratio of average remuneration of women to men in 2017	Ratio of average remuneration of women to men in 2018	Ratio of average remuneration of women to men in 2019
Manager	82%	92%	81%
Other employees	86%	81%	82%

[G4-LA13]

A friendly atmosphere and good working environment are also important at the KRUK Group. Mutual respect enhances effectiveness and growth of the companies and development of all team members.

In addition to being a signatory of the Diversity Charter, and to prevent adverse behaviours at workplace, such as unlawful discrimination or mobbing, the KRUK Group has in place an Internal Mediation Policy.

It provides detailed information on the rights of employees who experience a conflict or what they consider to be workplace bullying or discrimination. The document also defines the remit of the Consultation and Mediation Team.

Each employee may lodge a grievance:

- orally to one of the Consultation and Mediation Team members;
- in writing through an anonymous whistleblowing mailbox.

Three complaints were submitted in 2018, with no complaints related to discrimination received by the Consultation and Mediation Team in 2019.

Wonga has an Internal Anti-Bullying Policy which is a set of guidelines for reporting workplace bullying incidents. The company is also bound by the Code of Ethics, in which the company objects to any form of workplace discrimination and discrimination in relations with its clients. In common with the other KRUK Group companies, Wonga did not have to take any remedial measures in 2019 as no reports of discrimination were submitted that year.

As in the case of all KRUK Group companies, Wonga also has whistleblowing tools in place. Its Whistleblowing Procedure sets out rules for reporting events that are against the law, internal

regulations or ethical standards. The document also establishes anti-retaliation practices. Every employee in Wonga may use mailboxes available in the public staff welfare area for reporting workplace discrimination incidents to put those practices in action. In 2019, KRUK Group employees were required to complete an e-learning course on identification and effective reporting of workplace bullying practices.

All Group companies in Poland operate an Employee Support Programme which is meant to provide assistance to employees in difficult life situations. The programme consists in providing employees with specialist support and informed advice of psychologists from a partner non-profit organisation. The programme is consistent with our HR policy and core values, and these are primarily 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]

7.3.8

HUMAN RIGHTS GRIEVANCE MECHANISMS

With regard to protecting the employees of Polish-based KRUK Group companies, the Internal Mediation Policy has been put in place to protect human dignity and rights, personal rights in particular, by preventing workplace issues. A report of a conflict, discrimination or bullying incident triggers an enquiry that takes up to five (5) working days. The Internal Mediation Policy describes in detail the procedures for dealing with reported incidents. If possible, amicable resolution of a dispute is always considered first.

With regard to protecting the KRUK Group's clients, there is an extensive complaints process governed mainly by the Act on Handling Complaints by Financial Market Entities, Financial Ombudsman Act, Consumer Rights Act, and the Best Practices of the ZPF Association of Financial Companies. Complaints that are complex in nature and involve important legal issues or interventions of the Financial Ombudsman and Municipal or County Consumer Ombudsmen are considered with the participation of the Compliance Department.

KRUK S.A. has also established an Employee Forum to consider various initiatives proposed by employees and any grievances concerning employment or working conditions. No bargaining agreements exists at the company other than the Employee Forum.

No employment-related grievances were reported at the Group in the reporting period.

[G4-HR12] [G4-11]

7.3.9

ANTI-CORRUPTION

Since 2017, the KRUK Group has had an Abuse Prevention Policy and an Anti-Corruption Manual, which remain in effect since.

In 2019, the Management Board approved the Whistleblowing and Whistleblower Protection Policy. A dedicated form, available at <https://pl.kruk.eu/zglos-naduzycie>, allows employees to directly inform a Supervisory Board member, a Management Board member or the Security and Operational Risk Management Department of any suspected misconduct, dishonesty or wrongdoing.

Anyone (employees, but also third parties such as business partners or clients) who notices any irregularities can report them anonymously using a dedicated form which can be found at <https://pl.kruk.eu/zglos-naduzycie>.

Employees are notified of any new or updated policy through internal communication.

No substantiated corruption cases were recorded at the KRUK Group in 2019.

In 2019, Wonga carried out training and internal information campaigns on anti-corruption regulations.

[G4-HR12] [G4-SO3][G4-58][G4-SO4] [G4-SO5]

DATA SECURITY

The KRUK Group's business involves contacts with clients and, in the case of KRUK S.A., contact with debtors. We receive their personal data from our business partners pursuant to relevant assignment-of-receivables or cooperation agreements. Everything is done in accordance with the applicable legal regulations. Moreover, ERIF BIG S.A. maintains a database of consumers and businesses. Their data is provided by creditors in accordance with the Act on Disclosure of Business Information and Exchange of Business Data and in accordance with the Data Management Rules. Therefore, data processing is of particular importance to all employees, especially those working directly with personal data. Each employee is required to undergo training in informa-

tion and personal data 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 2019, 16 complaints were submitted to the President of the Personal Data Protection Office concerning KRUK Group companies (ERIF BIG S.A. – two complaints, KRUK S.A. – 11 complaints, Prokura NSFIZ – three complaints). Explanations were provided in all these cases. Proceedings are currently being held before the President of the Personal Data Protection Office. Having analysed the complaints, the Group believes they will be dismissed.

At KRUK Group companies, including those based abroad, all documents, procedures and measures applied were checked for compliance with the requirements stipulated under the Personal Data Protection Regulation (GDPR), and necessary changes were implemented.

All our Polish and foreign subsidiaries have appointed data protection officers, who have received relevant training.

The protection of personal data is of key importance to the entire KRUK Group. However, sometimes the Group receives for servicing debt cases with incorrect or outdated personal data or address details. All personal data requests and complaints are thoroughly analysed by KRUK S.A. to determine whether the submitting party's claim is valid and can be satisfied. The whole process is overseen by the Data Protection Officer.

In 2019, KRUK S.A. alone recorded 1,247 personal data submissions, 109 (or 8.7%) of which were found to be fully or partially justified.

In 2018, KRUK S.A. reported 1,350 personal data submissions, of which 106 (8%) were partially or fully justified.

At the other KRUK Group companies, 1,597 personal data submissions were received in 2019, of which 539 (or 33%) were considered fully or partially justified.

In 2018, the companies reported 668 personal data submissions, of which 153 (23%) were partially or fully justified.

All justified complaints were acknowledged and any damage suffered by the clients was remedied as agreed with the clients 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.

REGULATORY SECURITY

All Polish-based KRUK Group companies have implemented a process for monitoring, identification and implementation of changes in legislation, regulatory positions and case law. This mechanism alone helps to significantly increase the organisatio-

n's legal security. The process is performed by the Compliance Department. The latter is also tasked with issuing opinions on changes in processes and products and with monitoring their implementation.

The KRUK Group also has a Compliance Committee, which provides opinions on any significant product or process changes or new products under development. The Compliance Committee consists of the heads of the following units: Compliance Department, Security and Operational Risk Management 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.

In order to ensure transparency of the level of risks relevant to the KRUK Group companies in Poland, a comprehensive risk map was developed in 2019, which reflects the current levels of specified types of risks as well as prevention and mitigation mechanisms. In order to continuously raise legal awareness among employees of the Polish-based KRUK Group companies and to improve the companies' legal security, specialised training courses are delivered in areas that need them most. The Compliance Department has prepared an internal educational campaign with posters addressing legal and ethical issues.

No material penalty was imposed on the KRUK Group under an administrative decision or a common-court or administrative-court ruling in 2019.

[G4-SO4] [G4-SO5] [G4-SO8]

7.3.10

PRODUCT AND SERVICE LABELLING

DIALOGUE WITH CLIENTS AND BUSINESS PARTNERS

The Group's Client Experience Management and Coordination Department conducts regular satisfaction surveys among our clients (debtors whose debts are managed by KRUK) and business partners.

Innovativeness, high quality of services and, above all, meeting each client's and business partner's expectations are of key importance in day-to-day operations of all of the Group's subsidiaries. Thanks to such dialogue, it is possible to adjust the offer to market needs on an ongoing basis and to prepare new solutions, such as the amicable collection strategy with instalment payment plans tailored to the client's financial circumstances.

AT THE KRUK GROUP THE CLIENT COMES FIRST

Each client is treated individually, with due respect and understanding. Customers' stories help the Group better understand their situation. For a few years now, the Group has have con-

ducted client satisfaction surveys to measure customer service quality. This is reflected in a thorough analysis of all evaluations and suggestions submitted during the surveys.

Since 2015, the KRUK Group's Customer Experience Management Department has used the Net Promoter Score (NPS) to measure client satisfaction.

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 2019, we also continued to collect feedback from clients on their live chat experience with a consultant via a dedicated online survey.

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 2019, CES (Customer Effort Score) was introduced in Poland as a new survey metric to measure how much effort a client has put into the settlement process. Not only does it allow the Group to look at the settlement process from a client's perspective, but it also allows it to identify the difficulties encountered by the client in the process.

In the survey, respondents rate the ease of reaching a settlement on a scale of 1 to 5, where 5 means very easy and 1 means very difficult.

In 2019, nearly 13,000 clients of KRUK S.A. took part in the telephone survey carried out in Poland.

In a survey on the live chat support service experience, nearly 3,500 people shared their opinion.

The NPS and CES values in 2019 were as follows:

- cooperation with field consultants: 95 (2018: 94),
- cooperation with call centre consultants: 90 (2018: 84),
- amicable settlement process: 86 (2018: 83),
- monitoring of arrangements: 73 (2018: 70),
- NPS for cooperation with field consultants via live chat: 71 (2018: 66),
- CES for amicable settlement process: 4,85/5

In 2019, KRUK Romania measured the propensity of its clients to recommend KRUK services. The survey covered more than 10,000 of the Group's clients in this market, the number being similar to the previous year's figure.

The NPS values were as follows:

- NPS for cooperation with field consultants: 97 (2018: 96),
- NPS for cooperation with call centre consultants: 86 (2018: 85),
- NPS for amicable settlement process: 85 (2018: 83),
- NPS for monitoring of arrangements: 80 (2018: 79).

[G4-PR5]

The scores on both the Polish and Romanian markets are high, which may be explained both by good approach to client service and debt, as well as the very nature of the industry in which the Group operates.

The change in approach to and perception of debt we initiated was – and by some clients still is – seen as unusual and unexpected.

We want KRUK to be associated by clients with professional help and high quality service.

Another initiative undertaken by KRUK to enhance the positive perception of the company among its clients was implementation of the Customer Service Quality Policy and Customer Service Quality Standards developed on its basis in 2018.

For the KRUK Group, the Quality Standards are a guarantee of uniform and consistent service across all communication channels, and a way of building a consistent corporate image among clients.

The Customer Service Quality Policy itself is made up of twelve slogans, which are the determinant and direction of the way KRUK serves its debtors

[G4-PR5]

BUSINESS PARTNERS

As in the case of individual clients, the KRUK Group is committed to building positive relationships with business partners. In order to check the satisfaction of the KRUK Group's customers, business partner satisfaction surveys are conducted using such tools and methods as:

- NPS (Net Promoter Score), or likelihood of recommendation. It is a very important metric in our relationships with business 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 business 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.

KRUK S.A. achieved an NPS of 56% in 2019 (2018: 73%). The key strengths recognised by the Company's business partners were

good relations, ethical conduct, reliability, and safety.

Our partners are likely to recommend our services and cooperation with the Group to other businesses and institutions.

[G4-PR5]

MARKETING AND PR COMMUNICATIONS OF THE KRUK GROUP AND ITS COMPLIANCE WITH REGULATIONS

In 2019, the Group continued its marketing, educational and communication activities in line with the adopted strategy. We also began to pay greater attention to the issue of overconsumption and its impact on the environment, embarking on a series of initiatives focused on the environmental protection and climate crisis.

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

The aim of marketing and PR activities has invariably been to help customers understand the legal aspects of debt recovery and show them the way out of debt.

Such communications and initiatives are addressed to the general public, because the Group believes anyone can find themselves in a difficult financial and life circumstances and thus fall into debt.

Throughout 2019, the KRUK Group companies maintained contact with the media through press releases, based on which the media delivered educational publications and information to the wider audience. Our experts appeared in regional and national media in Poland and abroad, offering their commentaries and advice.

Presented below is the number of media publications featuring the KRUK Group in the markets where we operate.

	POLAND	ROMANIA	CZECH REPUBLIC	SLOVAKIA	SPAIN	ITALY
INTERNET	7553	263	168	171	110	61
PRESS	626	1	205	22	22	17
RADIO	63	35	10	1	5	0
TELEVISION	6	6	7	0	–	0
TOTAL	8248	305	390	194	137	81

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 2019, there were no cases of non-compliance with the laws or regulations applying to the provision and use of our services. Therefore, no penalties were imposed on the Group for non-compliance with the laws and regulations that govern marketing communication, including advertising, promotion, and sponsorship.

At Wonga, as at the other Group companies, marketing communications are prepared to the highest industry standards and in line with generally applicable laws, including the Consumer Loans Act, the Act on Counteracting Unfair Market Practices, and the Broadcasting Act. No penalties were imposed on Wonga or other Group companies under any administrative decisions regarding the dissemination of marketing materials in 2019.

[G4-PR7] [G4-PR9]

7.4

GRI CONTENT INDEX

Indicator	Description of the indicator (full graphic version available on the KRUK S.A. website)	Reference in the report (page number)
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	72
G4-3	Name of the organisation	23
G4-4	Primary brands, products, and services	33
G4-5	Location of the organisation's headquarters	23
G4-6	Number of countries where the organisation operates, and names of these countries	33
G4-7	Nature of ownership and legal form	23, 103
G4-8	Markets served, including geographic breakdown, sectors served, and types of clients and beneficiaries	33
G4-9	Scale of the organisation	33
G4-10	Total number of employees by employment type, employment contract and region, broken down by gender	38
G4-11	Percentage of employees covered by collective bargaining agreements	121
G4-12	Description of the supply chain	107, 108
G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or value chain	Not applicable
G4-14	Application of the precautionary principle in the KRUK Group	68
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses.	118
G4-16	Membership of associations, national or international organizations	63, 100
G4-17	Entities included in the consolidated financial statements	33
G4-18	Process of defining the report content	96
G4-19	Identified material aspects of environmental and social impact	96
G4-20	Relevance of identified aspects of the environmental and social impact of the KRUK Group	96
G4-21	Limitations of the report regarding material aspects of environmental and social impact outside the organisation	96
G4-22	Effect of any restatements of information provided in previous reports	95
G4-23	Changes in relation to previous periods covered by the report regarding the scope and boundaries relating to the engagement of external stakeholders	95
G4-24	List of stakeholder groups engaged by the organisation	96
G4-25	The basis for identification and selection of stakeholders with whom the Group engages	96

G4-26	The Group's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	96
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the Group has responded	96
G4-28	Reporting period	95
G4-29	Date of most recent previous report (if any)	95
G4-30	Reporting cycle	95
G4-31	Contact person	95
G4-32	GRI Content Index	95, 127
G4-33	Policy and practice with regard to seeking external assurance for the report	95
G4-34	Governance structure of the organisation, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts	81
G4-38	Number and gender of members of the highest management and supervisory body	86
G4-56	The values of the KRUK Group, its principles, standards and norms of behaviour and ethics	99, 100
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity	121
G4-EC1	Direct economic value generated and distributed	101
G4-EC5	Ratio of the entry level wage by gender at significant locations of operation to the minimum wage	101
G4-EC7	Development and impact of infrastructure investments and services supported	106
G4-EC9	Percentage of the procurement budget of significant locations of operation spent on local suppliers	108
G4-EN1	Used materials and (or) raw materials by mass or volume	109
G4-EN3	Energy consumption within the organisation	111
G4-EN29	Compliance with regulations	111
G4-EN15	Direct greenhouse gas emissions	111
G4-EN16	Indirect greenhouse gas emissions	111
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	112
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	113
G4-LA3	Return to work and retention rates of employees who took parental leave, by gender	113
G4-LA6	Types of injury, injury rate, occupational diseases, lost day rate, absentee rate and work-related fatalities, by region and gender	115
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	115
G4-LA9	Average hours of training per year per employee by gender and employee category	116
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	116

G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	116, 117
G4-LA12	Composition of governance bodies and breakdown of employees according to gender, age group, minority group membership, and other indicators of diversity	38, 119
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	120
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	117
G4-HR3	Total number of incidents of discrimination and corrective actions taken	120
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	121
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	121
G4-SO4	Communication and training on anti-corruption policies and procedures	121, 122
G4-SO5	Confirmed incidents of corruption and actions taken	121, 122
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	122
G4-PR5	Results of surveys measuring customer satisfaction	122, 123
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	124
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	124
SOURCE: COMPANY		

[G4-32]



OTHER INFORMATION

- 8.1 | PERFORMANCE OF COMPANY SHARES ON THE WARSAW STOCK EXCHANGE
- 8.2 | INVESTOR RELATIONS
- 8.3 | GLOSSARY OF TERMS

8.1

PERFORMANCE OF COMPANY SHARES ON THE WARSAW STOCK EXCHANGE

8.1.1

SHARE PRICE

In 2019, the stock market listing of KRUK shares increased by 9.88%, compared with a 39% decline in the previous year. Our stock underperformed in relation to the WIG and mWIG40 indices, which reached rates of return of +0.25% and -0.03%, respectively. Despite the negative sentiment to the debt sector, KRUK's assets achieved a positive rate of return thanks to improved operating efficiency, investments, and record repayments on its own portfolios in 2019.

On the last trading day in 2019, the Company's market capitalisation was PLN 4.9bn (compared with PLN 4.2bn at the end of the previous year). On December 31st 2017, KRUK ranked 30th in terms of market capitalisation on the WSE.

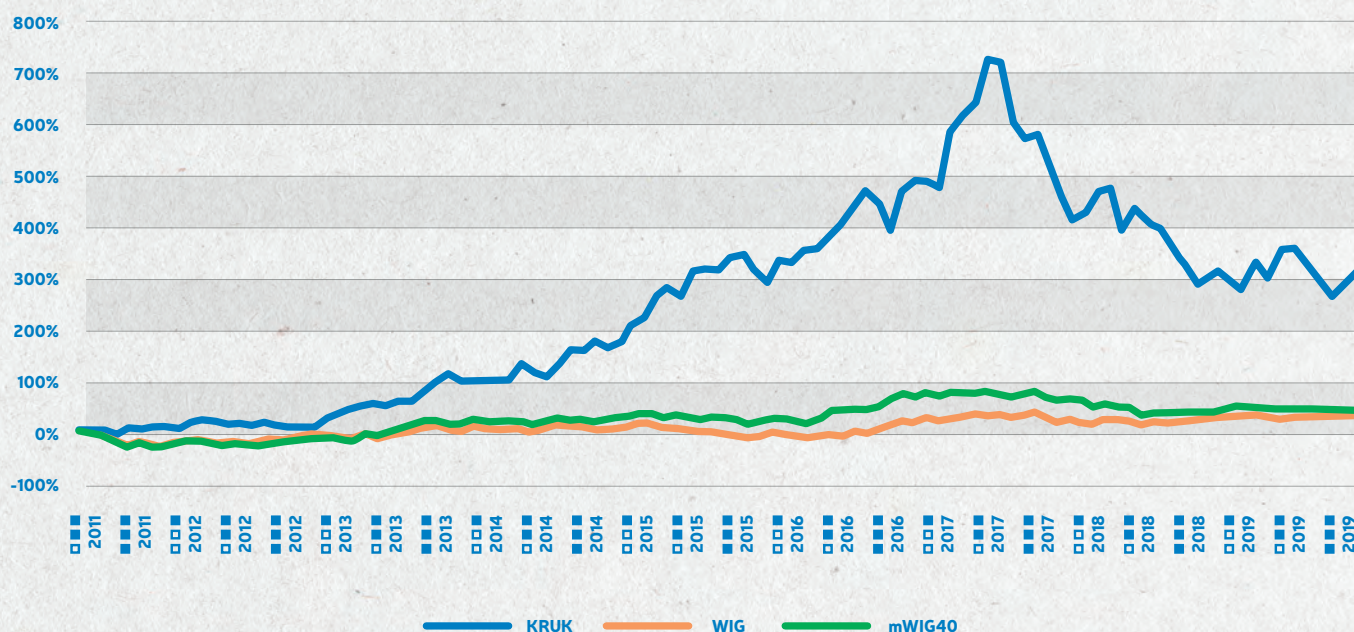
RATES OF RETURN ON KRUK S.A. STOCK, WIG AND MWIG40 IN 2019 – CLOSING PRICES

DATE	KRUK	WIG	mWIG40
RATE OF RETURN	9,88 %	0,25 %	-0,03 %

SOURCE: GPW.PL

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 2019, the rate of return on KRUK shares was 302%. Over the same period, the WIG index, reflecting the dynamics of the entire WSE market, rose by 17%, While the mWIG40 index (mid-cap companies) went up by 34%.

PERFORMANCE OF KRUK STOCK AGAINST WIG AND MWIG40 FROM THE COMPANY'S IPO ON THE WSE IN MAY 2011 TO THE END OF 2019



SOURCE: IN-HOUSE ANALYSIS, BASED ON STOOQ.PL

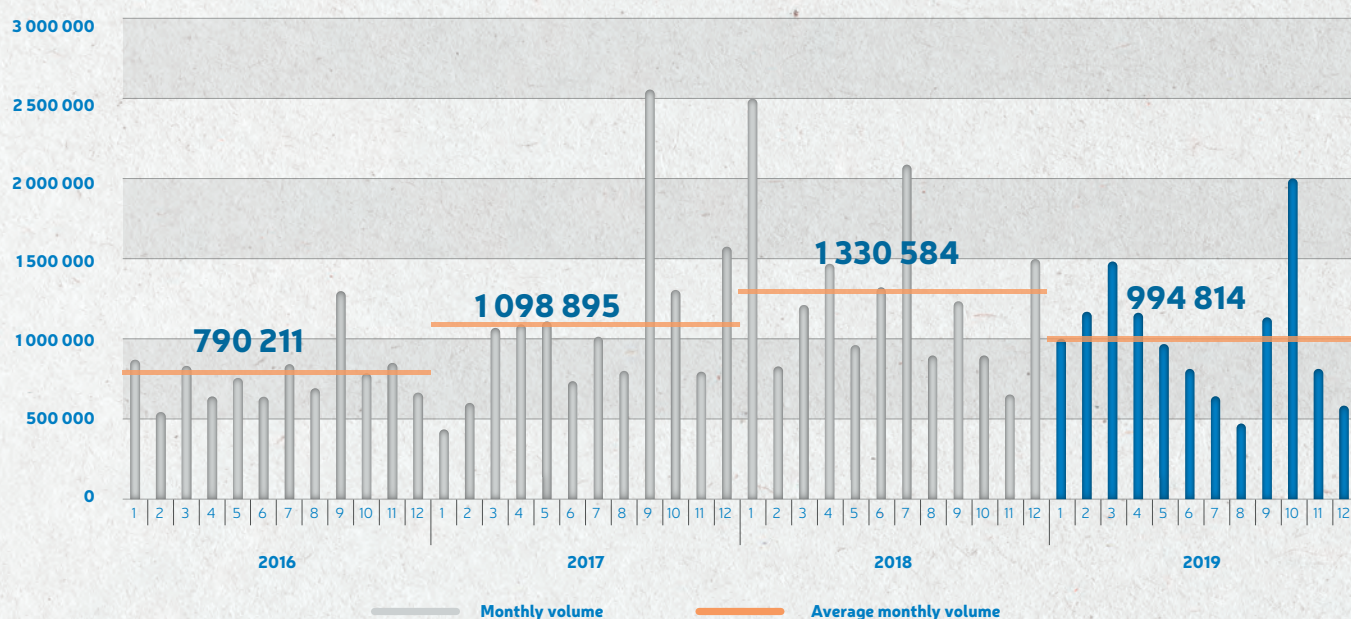
8.1.2

LIQUIDITY OF SHARES

The total volume of KRUK S.A. shares traded in 2019 was 12.0m, and the total value of trading reached PLN 1.9bn. To compare, the total volume of KRUK S.A. shares traded in 2018 stood at 16m, and the total value of trading was PLN 3.3bn. The average daily trading volume of KRUK shares in 2019 was 48.1 thousand

shares, and the average daily trading value stood at PLN 7.6m. In 2019, KRUK was the 21st most liquid stock on the WSE (in terms of the total annual trading volume).

MONTHLY VOLUME IN INDIVIDUAL MONTHS AND THE YEAR'S AVERAGE MONTHLY VOLUME OF TRADE IN KRUK SHARES IN 2014-2017



SOURCE: IN-HOUSE ANALYSIS BASED ON WWW.GPW.PL

8.2

INVESTOR RELATIONS

The Company's activities and initiatives in the Investor Relations area are targeted at:

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

For more information on key Investor Relations activities in 2019, see the table below

KEY INVESTOR RELATIONS ACTIVITIES IN 2019

	Number of non-deal roadshows	Number of investor conferences
Poland	4	5
Foreign markets	2	7

SOURCE: IN-HOUSE ANALYSIS

POLISH INSTITUTIONAL STOCK AND BOND INVESTORS

- Four conferences organised following the publication of results for 2018, Q1 2019, H1 2019 and Q1-Q3 2019 Investor Day at the Company's headquarters in Wrocław
- Participation in the conference Pekao Financial Sector in Poland - outlook for 2019 in Warsaw in March 2019
- Participation in the PKO BP Investor Day: CEE Financials conference in Warsaw in March 2019

- Participation in the Wood MidCap Gems of Emerging Europe conference in Warsaw in May 2019
- Participation in the mBank European Financials Conference in October 2019
- Mailing to investors on key developments and events at the Company
- Continuous dialogue with investors

POLISH RETAIL EQUITY AND BOND INVESTORS

- Participation in the Wall Street 22 Conference organised by the Polish Association of Retail Investors in May 2019
- Maintaining a corporate profile on the StockWatch website featuring latest information on the Company
- Chats with retail investors
- Continuous dialogue with investors

FOREIGN INSTITUTIONAL INVESTORS

- Four conferences organised following release of earnings reports for 2018, Q1 2019, H1 2019 and Q1–Q3 2019
- Organisation of two non-deal roadshows in Frankfurt/Vienna and Boston/New York
- Participation in CEEMEA Opportunities 2019 conference organized by J. P. Morgan in London
- Polish Capital Market – London 2019 conference organised by PKO BP
- Participation in the Carnegie Debt Collectors Days 2019 conference in Stockholm
- Participation in the conference PKO BP CEMEA New York 2019
- Raiffeisen Polish Day in Bucharest 2019 Conference
- Polish Innovation & Growth Conference in Stockholm organised by Wood&Co.
- WOOD's Winter in Prague Conference 2019
- Mailing to investors on key developments and events at the Company
- Continuous dialogue with investors

BROKERAGE HOUSE AND INVESTMENT BANK ANALYSTS

- Four conferences organised following the publication of results for 2018, Q1 2019, H1 2019 and Q1–Q3 2019
- Investor Day at the Company's headquarters in Wrocław
- Mailing to investors on key developments and events at the Company
- Continuous dialogue with equity analysts.

The table below presents brokerage houses covering the Company stock:

RESEARCH COVERAGE

Company	Analyst	Contact details
BDM	Maciej Bobrowski	maciej.bobrowski@bdm.pl
Erste Group DM	Michał Pilch	michal.pilch@erstegroup.com
Ipopema DM	Łukasz Jańczak	lukasz.janczak@ipopema.pl
JP Morgan	Michał Kuzawiński	michal.kuzawinski@jpmorgan.com
mBank DM	Michał Konarski	michal.konarski@mdm.pl
PKO BP DM	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
Santander BM	Kamil Stolarski	kamil.stolarski@santander.pl
Trigon DM	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Wood & Co.	Marta Jeżewska-Wasilewska	marta.jezewska-wasilewska@wood.com

SOURCE: IN-HOUSE ANALYSIS

FINANCIAL JOURNALISTS

- Four conferences organised following the publication of results for 2018, Q1 2019, H1 2019 and Q1–Q3 2019
- 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 2019 MARKET COMMUNICATION INCLUDED:

- KCommunication of the Company's financial results for 2018, Q1 2019, H1 2019, Q3 2019
- Quarterly information on the Group's investments and recoveries
- Payment of dividend of PLN 5.0 per share – the fourth dividend distribution since the floatation
- Sixth public bond issue programme;
- Investment in the consumer finance industry – purchase of Wonga.pl and rights to the wonga brand;
- Further expansion into the new markets – Italy and Spain.

8.3

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 without presented in the financial statement the other operating revenue and other operating costs (not assigned)
EBITDA	Operating profit without presented in the financial statement the other operating revenue and other operating costs (not assigned) before depreciation and amortisation
Cash EBITDA	Profit/(loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.
EPS	Earnings per share
EUR	Euro
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
Kancelaria Prawna RAVEN	Kancelaria Prawna RAVEN P. Krupa spółka komandytowa of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK España	KRUK España S.L. of Madrid, Spain
KRUK Italia	KRUK Italia S.r.l of Milan, Italy
KRUK ROMANIA	KRUK Romania s.r.l of Bucharest, Romania
KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards endorsed by the European Union, including International Accounting Standards, International Financial Reporting Standards and related Interpretations endorsed by the European Union

NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, BISON NS FIZ
GDP	Gross Domestic Product
PLN	Polish złoty
UOKiK President	President of the Office of Competition and Consumer Protection
2015-2019 Scheme	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase.
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)
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 2019, 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	General Meeting
Wonga	Wonga.pl Sp. z o.o. of Warsaw
Management Board	Management Board
Financial liabilities	<p>Total financial liabilities under:</p> <ul style="list-style-type: none"> • bonds or other similar debt securities; • non-bank borrowings; • bank borrowings; • finance leases; • promissory notes issued by way of security for liabilities of non-Kruk Group entities; • guarantees or sureties provided in respect of liabilities of non-Kruk Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; • accession to debt owed by non-Kruk Group entities under bank non-bank borrowings, finance leases, bonds or other similar debt securities; • assumption of liabilities of non-Kruk Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; • concluded derivative transactions.

The Directors' Report on the operations of the KRUK Group in 2019 is presented by the Company's:

PIOTR KRUPA

CEO AND PRESIDENT OF THE MANAGEMENT BOARD

URSZULA OKARMA

MEMBER OF THE MANAGEMENT BOARD

AGNIESZKA KUŁTON

MEMBER OF THE MANAGEMENT BOARD

IWONA SŁOMSKA

MEMBER OF THE MANAGEMENT BOARD

MICHAŁ ZASĘPA

MEMBER OF THE MANAGEMENT BOARD

Wrocław, March 5th 2020



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